

Coronavirus: How to Behave in Investment

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Coronavirus: How to Behave in Investment

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Abstract-The aim of this research is to recalling the paradigm and describe the investment strategies in turbulent market conditions, that is because of a Corona disease outbreak. This research is a type of literature study. This research is also descriptive research with the support of theories and the findings from previous studies. Investors should be patient for these circumstances since it's not forever. This's strengthened by the theory of the business cycle. If the Coronavirus will lead to a recession, that recessions will happen for some time, but eventually, the economy will recover. Assuming all of the investors optimistic about the market without doing the massive selling, the market will be just fine and there's no recession in the future by looking different perspective in charts. Dealing with this market volatility, investors should figure out how to manage risk, by gaining hard cash. Despite the market upheaval, investors still need to buy the stocks by considering the market risk to choose the appropriate stocks. However, buying and holding strategy is a reasonable approach and let the investment grow.

Keywords: Business Cycle, Buy And Hold, Cash Holding, Market Risk, Technical Analysis.

Introduction

The coronavirus outbreak or Covid-19 has not only brought the human suffering but also has eroded the global economy and spread to Indonesia. In fact, according to tempo.co, IDX Composite on Thursday morning, April 2, 2020, was corrected along with the plummeting global stock markets. IDX Composite crashed 17.92 points. Everything that is beyond prediction and is not an easy thing to move. Many companies suffer losses because of problems caused by the spread of the virus [1; 2; 3]. The continuity of damage to the economy the coronavirus will lead to a recession is still full of question marks. Companies should rethink how to deal with this kind of circumstances [4; 5; 6].

It's just a matter of market reactions. How we react, will lead to market performance. Who are we in this part? The concern of this research is we as investors. People are panic buying, the government's call to working from home and avoiding the crowd, the stock market fell sharply, was closed for some time and so many other global economic impacts. Don't be panic? Maybe this's very naive in this kind of circumstances. Unfortunately, this's our responsibility also to maintain market behaviour. Governments, companies and other related parties who are in control of the economy are certainly trying hard to overcome this problem. That's why we as the investors should act now to help to reduce the harmful impacts on the stock price. This paper contributes to recalling the paradigm and share several investment strategies based on theories and findings from previous research.

Business cycles are a type of situation in the aggregate economic activity in business enterprises that consists of expansions occurring in economic activities, followed by recessions, contractions and revivals which merge into the expansion phase; the sequence of changes is not periodic [7;8;9;10;11]. In designing the economic stabilization policies, the business cycles are really important to be analysed [12;13;14]. The stock market is important in the economic growth by pricing, reducing risk, mobilizing resources, and optimal allocation of capital [15;16].

Investors need to set up the strategy to generate the optimal return in the stock market. Technical analysis is a forecasting technique in predicting stock price movement without considering the fundamental analysis [17;18;19]. Some findings supported the technical analysis as predictive power on the return of the stock. A research finding says found that technical analysis provides value-added [21;22]. They used nonparametric kernel regression to recognize the technical pattern in the time series of prices. Wei Lin, Hsin Hsu and Sheng Huan investigated the technical analysis validity in energy markets [23].

Furthermore, the effectiveness of the passive investment strategy has been studied by both academics and practitioners. Some research supports the importance of passive income strategy to create the stock return. One of the strategies is to buy & hold strategy. French concluded that investor would increase average return annually by 67 basis points when switching to a passive market portfolio [24].

Cash holding is also one of the strategies in investment. Keynes found that the investor's purpose to hold cash is to secure the sustainability of the company. Cash supply is also important to have during business uncertainty periods [25]. Moreover, Arslan-Ayaydin found that firms should maintain quite large cash reserves to reach the flexibility of financial performance [26].

Other than that, the trade-off between risk and return is common for investors to be considered. There is a significant relationship between the performance of a company and sustainable economic growth. Consequently,

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The effect of market risk on bank performance that contribute to the better function of the banking system. The result is that market risk has a significant effect on the volatility of return. Muriithi, Muturi and Waweru revealed that market risk has a significant effect on the performance of commercial banks in Kenya. The investigation was done both in the short run and in the long run [27].

Methods

This research is a type of literature study. The analysis is by using descriptive research with the support of theories and the findings from previous studies. Supported data is collected from online data, www.yahoofinance.com.

Results and Discussion

Stages of Business Cycles

Investors should be patient for these current circumstances since it's not forever. This's strengthened by the concept of the business cycle. Although the business cycle is unpredictable due to the spread of the COVID-19, the business cycle has significant implication for the investors in generating the optimal trading investment strategy [28;29;20;31]. If the Coronavirus will lead to a recession, that recessions will happen for some time, but eventually, the economy will recover as we can see from figure 1 below.

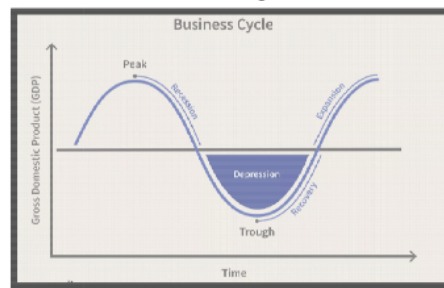


Figure 1. Business Cycle
Source: www.investopedia.com

Different Perspective in Technical Analysis

The technical analysis on the Dow Jones Industrial Index. They found that trading rules have predictive power [32; 33; 34]. Furthermore, the technical analysis also has the ability of stock price prediction in the emerging markets [35]. Based on that, observations about the stock market prospects regarding this following charts were made.

These 2 charts will represent the different prospect of the market. By observing the trend, it seems like there's no prospect for the stock market if we see the Jakarta Composite Index monthly. It's referred to the uptrend. On the other side, we've got a different perspective if we examine the daily chart, as we can see in Figure 3. There's the prospect for the stock market on 13, 20, 26 and 27 March 2020. It's referred to downtrend. Assuming all of the investors optimistic about the market without doing the massive selling, the market will be just fine and there's no recession in the future. We commonly know this as demand and supply law.



Figure 2. Monthly Jakarta Composite Index
Source: www.yahoofinance.com

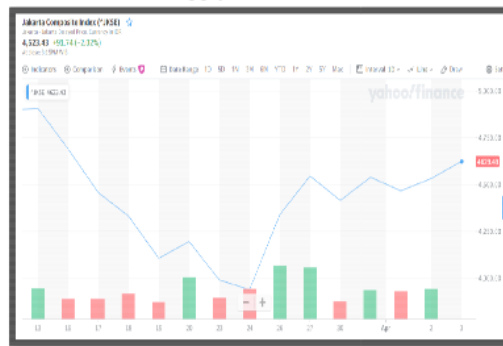


Figure 3. Daily Jakarta Composite Index
Source: www.yahoofinance.com

The Role of Cash Holding

Research on cash holding has been carried out by researchers for a long time. Trading and prevention are the most obvious motivation for cash holding [36; 37]. One of the best ways to survive during a recession is to increase the cash holding. Dealing with the crisis, investors should figure out how to manage risk, by gaining hard cash. This strategy has been proven by Arslan, Florackis and Ozkan that found strong evidence that cash is effective for companies during the crisis [38]. Cash could mitigate the financial risks and reduce the cash flow volatility [39].

Buy and Hold Strategy

This is a reasonable approach in choosing stocks of value and invest to grow [40]. For this section, it's better not to sell all of the stocks, just buy and hold, since it will lead to the poor performance for the market since there's no demand any more. Investors need to be a focus on the previous investment plan without freaking out for what is happening right now. Businesses are still running to meet the welfare of shareholders.

The Role of Market Risk in Determining the Appropriate Stocks

Indonesia Stock Market has been decreasing since the beginning of 2020 because of the Coronavirus that lead to panic reactions to the market.



Figure 4. Jakarta Composite Index
Source: www.yahooofinance.com

Because of this consideration, the appropriate risk that ¹²would measure is market risk. ⁹Capital Asset Pricing Model defines the relevant measure of risk by using systematic risk. This risk represents the market reactions to the securities. This is called the beta coefficient, calculates the amount of a systematic risk from stocks [41]. The required return is[42]:

$$r_j = R_F + [\beta_i(r_m - R_F)]$$

- ⁴Where:
- r_i = required return on asset j
- R_F = risk free rate of return
- β_i = beta coefficient
- ¹ = market return

- Some benchmark:
- $\beta = 0.5$: Stock is only half as volatile, or risky, as an average stock
- $\beta = 1.0$: Stock is of average risk
- $\beta = 2.0$: Stock is twice as risky as an average stock

Following that benchmark, an investor should know the risk that they can handle. Investors must recognize themselves when it comes to the type of investor which is the risk-taker or risk-averse one. However, this is the moment when investors want to calculate which kind of stocks are the most suitable stocks for them and then buy it right away. Despite the market upheaval, investors still need to buy the stocks by considering the market risk to choose the appropriate stocks.

Conclusion

This paper contributes to recalling the paradigm and describe the investment strategies in turbulent market conditions, that is because of a Corona disease outbreak. Investors should be patient for these circumstances since it's not forever, that's strengthened by the business cycle. If the Coronavirus will lead to a recession, that recessions will happen for some time, but eventually, the economy will recover. Assuming all of the investors optimistic about the market without doing the massive selling, the market will be just fine and there's no recession in the future by looking different perspective in charts. Dealing with this market volatility, investors should figure out how to manage risk, by gaining hard cash. Despite the market upheaval, investors still need to buy the stocks by considering the market risk to choose the appropriate stocks. The reasonable approach is to buy and hold strategy to give the investment time to grow and give the optimal return to investors at the right time.

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