BREWIN DOLPHIN

Should I reduce my exposure to equities?

Investing in the stock market may feel counterintuitive when economists are warning of a UK recession. But with inflation running at a 40-year high, fleeing to cash is unlikely to be a wise move.

Here, we explain why reducing your exposure to equities could prove costly in the long run, with tips on how to protect your portfolio in these uncertain times.

Equities versus cash

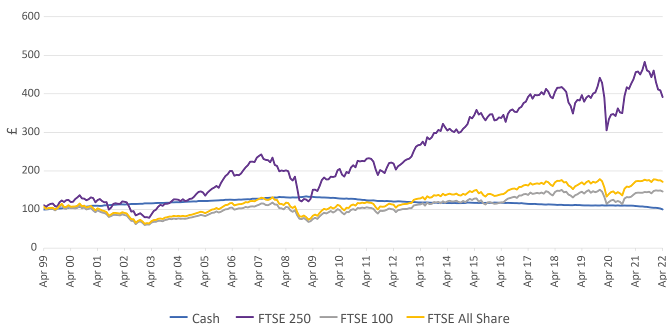
Although stock market downturns are alarming, our analysis shows that over the past two decades you would have been far better off staying invested than moving your money into cash. This is despite the last 20 years witnessing major economic shocks, including the bursting of the dot-com bubble, the global financial crisis and the coronavirus pandemic.

Time and again, the stock market recovered from its dips and went on to deliver impressive returns over the long term. In contrast, cash delivered almost no real growth as interest rates were no match for the eroding impact of inflation.

The chart below shows that if you put £100 in a cash savings account in 1999, its real value would have risen to just £100.26 by April 2022[1]. That's a gain of only 0.26% in two decades.

In contrast, if you had invested £100 in the FTSE 250, its real value could have grown by over 290% to an impressive £391.82, assuming dividends were reinvested and after adjusting for fees[2]. Based on the same assumptions, investing in the FTSE All-Share or FTSE 100 could have seen your £100 grow to £171.89 and £146.73, respectively.

Cash vs equities - real returns since 1999



Source: Brewin Dolphin / Refinitiv Datastream

How much should I invest in equities?

This isn't to say you should invest all your money in the stock market. It's really important to keep around six months' worth of essential expenditure in an easy-access savings account. This 'rainy-day' fund will help you pay for unexpected emergencies, such as your car breaking down or a period of unemployment.

Even when you're investing, you should look at spreading your money across a range of asset classes, with different risk and return characteristics. Diversifying across stocks, bonds, property and cash can help to minimise overall losses and smooth returns over time.

Exactly how much money you should allocate to each asset class will depend on your individual circumstances, including how long you're investing for and your attitude to risk. If you're approaching retirement, you may wish to allocate a smaller proportion of your portfolio to equities than someone who is, say, 20 years away from retirement. However, this isn't black and white, so make sure you seek financial advice on what's right for you.

Next steps

Although the current economic backdrop is worrying, it's really important not to make any rash decisions. Try to remember that investing is for the long term and that dips in performance are inevitable. This isn't always easy, but getting some smart advice will help you feel confident you're doing the right thing with your money and that you're on track to achieve your goals.

[1] Interest rate used is one-month SONIA. Real returns are calculated using the UK Consumer Price Index.

[2] Assumes fees of 0.5% per year.

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