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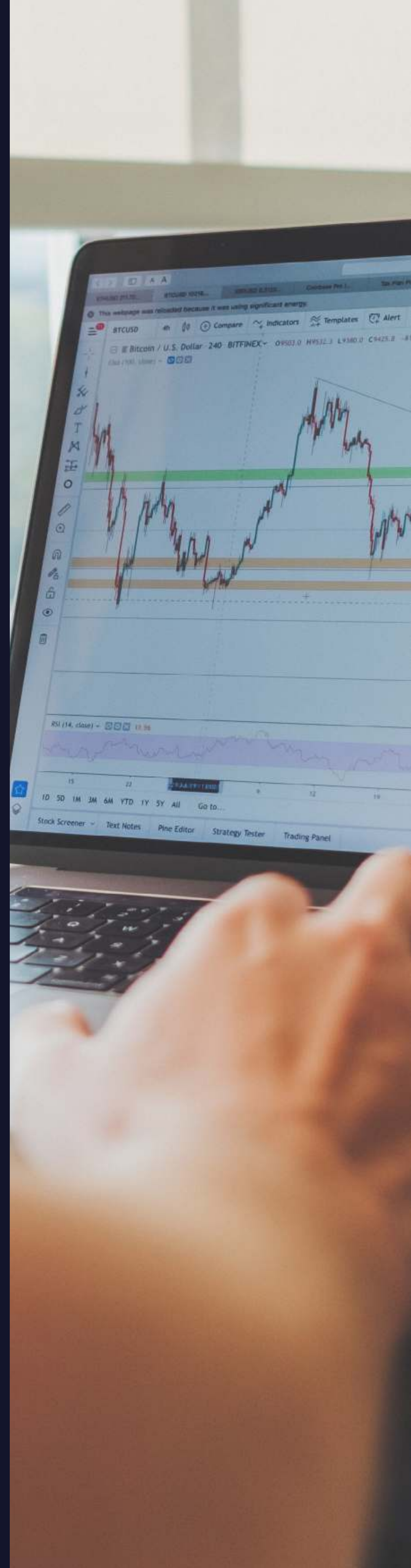

The ‘Unlucky’ Investor

October 2022

Investment returns have been highly volatile throughout 2022. And while times of market stress are, unfortunately, part of the investment journey of any investment portfolio, this universal truth may offer little comfort to investors who are seeing the value of their investments eroded in real-time.

However, historical analysis tells us that even those investors unlucky enough to invest just before a significant market sell-off do tend to see the value of their investment recover. For those investors who feel they have got the timing of their investment wrong, this should remind them of the old investment adage that "time in the market is more important than timing the market".

In this document, we show the outcomes for a hypothetical investor who had invested £200,000 in a global equities portfolio at the exact peak (first arrow) before some of the most pronounced market sell-offs in the last two decades. The second arrow on each chart shows when the market reached its low point.

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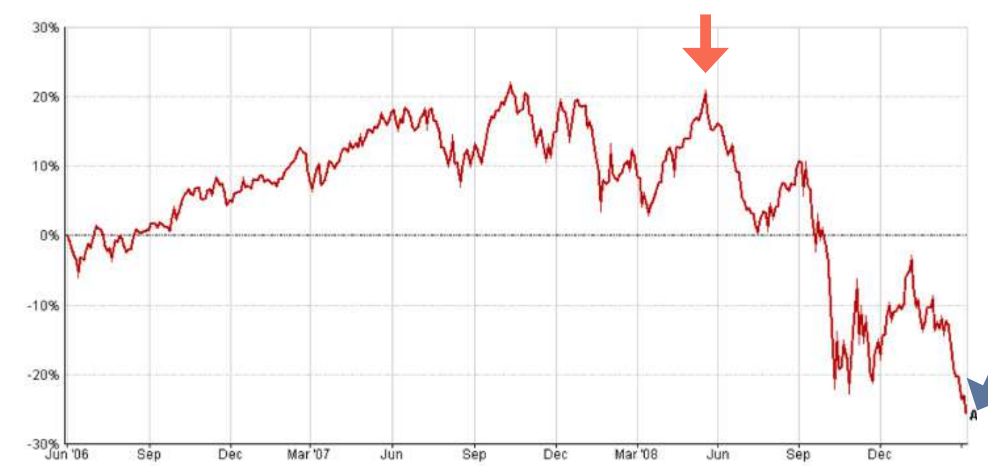
Chart 1: The Global Financial Crisis (2008)

The Global Financial Crisis (GFC) was the most momentous financial disaster since the stock market crash of 1929 that caused the Great Depression. A downturn in the US housing market, exacerbated by risky derivatives-based investments created by global financial institutions, was the catalyst for a financial crisis that spread throughout the world due to the linked global financial system. Banks across the globe saw the values of their assets collapse and, faced with huge losses, had to rely on government bail-outs to avoid widespread bankruptcy. These bail-outs helped lead to the 'Great Recession', an era of financial austerity, historically low interest rates and low rates of economic growth for several years.



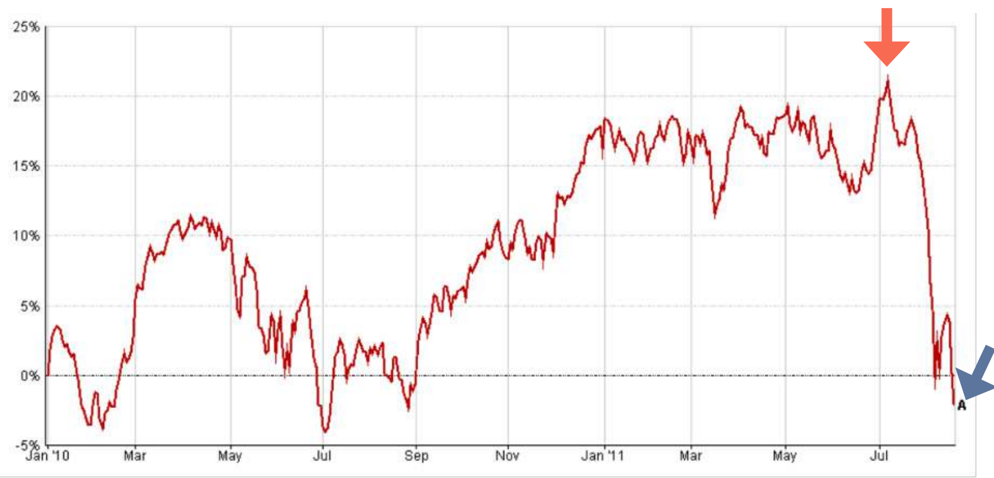
The first table shows the loss that each portfolio would have suffered during these periods. The second table shows what that investment would have been worth in one, three and five-year periods after that market trough, and what the investment would be worth as of 3rd October 2022.

Time from peak to trough	Percentage fall in value	Hypothetical value
19/05/2008 – 06/03/2009	-38.31%	£123,380

Value of investment after one year	Value of investment after three years	Value of investment after five years	Value of investment at October 2022
£202,417	£218,790	£291,177	£655,607

Chart 2: The Eurozone Debt Crisis (2011)

Also known as the European Sovereign Debt Crisis, and an after-effect of the GFC, the Eurozone Debt Crisis was prompted by a balance-of-payments crisis, where countries running high deficits were faced with the sudden loss of foreign capital. As a result, several members of the European Union, including Greece, Portugal, Spain, Ireland and Cyprus were unable to repay or refinance their government debt or to fund bail-outs to their domestic banks without emergency assistance from the European Central Bank (ECB) or the International Monetary Fund (IMF). Countries defaulting on their sovereign debt could have led to another global recession or the collapse of the EU. Greece's debt was rated as 'junk' bonds at one point. EU countries receiving bail-out funds were subsequently forced to meet strict austerity programmes and repayment programmes.



Time from peak to trough	Percentage fall in value	Hypothetical value
06/07/2011 – 19/08/2011	-19.18%	£161,640

Value of investment after one year	Value of investment after three years	Value of investment after five years	Value of investment at October 2022
£196,134	£253,953	£330,101	£578,671

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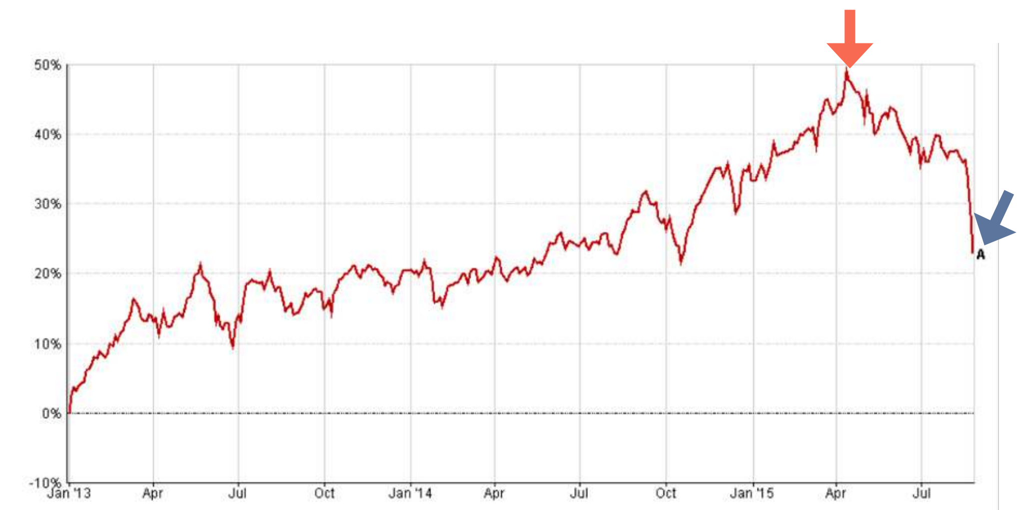
Chart 3: Commodities Crash and Emerging Market Recession (2015)

In 2015, a sharp downturn in emerging market (EM) economies and world trade significantly weakened global growth prospects. Commodity exporters in particular saw sharp depreciations of their currencies, and a general trend of reduced financial inflows to emerging markets resulted in heavy market falls. In China, the Shanghai stock market dropped 30% in less than three weeks between June and July 2015, with companies filing for trading to cease to prevent further losses. The largest EM countries, including Brazil and Russia experienced recessions, and other emerging economies experienced weaker commodity prices, tighter credit conditions and lower growth, and sharp currency depreciations exposed financial vulnerabilities.

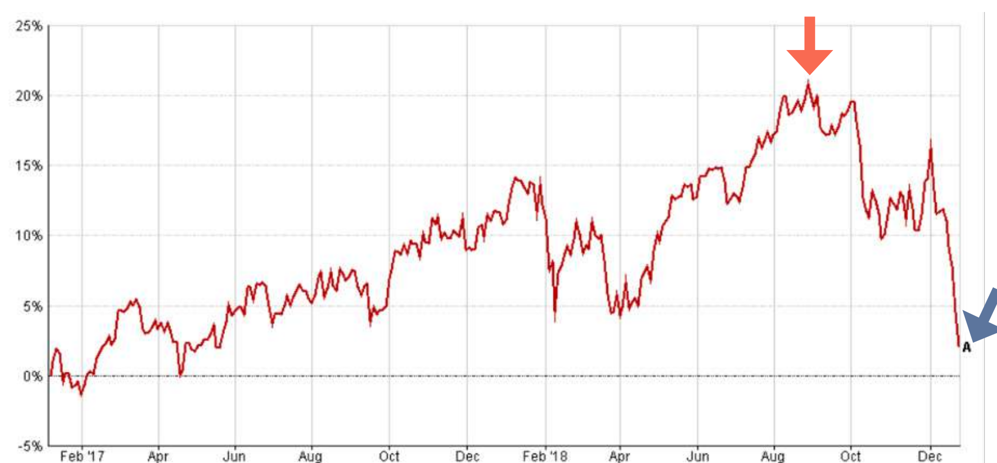


Time from peak to trough	Percentage fall in value	Hypothetical value
10/04/2015 – 24/08/2015	-17.62%	£164,760

Value of investment after one year	Value of investment after three years	Value of investment after five years	Value of investment at October 2022
£219,114	£290,900	£329,520	£386,830

Chart 4: Trump Trade Wars and Tariffs (2018)

US President Donald Trump spent much of his single term in office fighting trade wars and imposing tariffs on other countries, as part of his "America First" doctrine. The US economy paid the heaviest price for those policies. The Trump administration imposed and threatened several rounds of tariffs, and forced other countries to respond with tariffs of their own on US goods, which significantly weakened market confidence, as tariffs are damaging to economic growth, and also lead to losses in production and jobs, and lower levels of income. Tariffs also tend to affect lower-income consumers the most. A 2019 analysis conducted by CNBC found Trump's tariffs were equivalent to one of the largest tax increases in the US in decades.

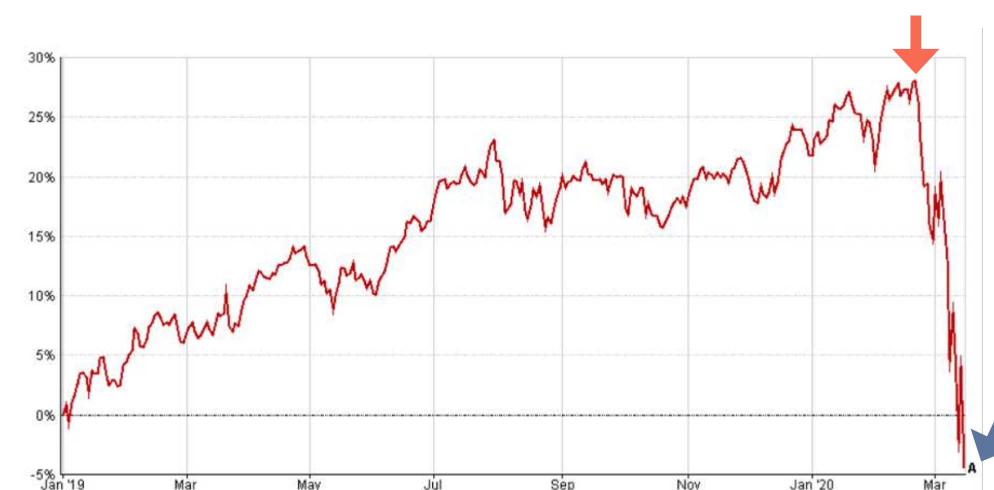


Time from peak to trough	Percentage fall in value	Hypothetical value
28/08/2018 – 25/12/2018	-15.51%	£168,980

Value of investment after one year	Value of investment after three years	Value of investment after five years	Value of investment at October 2022
£218,711	£290,037	N/A	£261,294

Chart 5: COVID-19 Pandemic (2020)

The COVID-19 pandemic led to widespread fears among investors, which resulted in soaring levels of volatility and caused a stock market crash in February 2020. At the beginning of 2020, the disease was expected to be a problem solely for China to deal with. But the rapid spread of COVID-19 resulted in countries across the world imposing strict lockdowns to contain the spread, and business activities and almost all aspects of social interaction came to a sudden halt. This triggered a freefall in share prices, as investors struggled to put a fair value on businesses forced to suspend their operations for an unspecified period.



Time from peak to trough	Percentage fall in value	Hypothetical value
20/02/2020 – 16/03/2020	-25.36	£149,280

Value of investment after one year	Value of investment after three years	Value of investment after five years	Value of investment at October 2022
£221,741	N/A	N/A	£233,326

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Summary

In the short term, investment markets can display periods of increased volatility and therefore forecasting potential returns over shorter time frames offers less predictability. But as we zoom out and look at longer timeframes, once these periods of profound crisis have resolved themselves, it becomes clear that short bouts of volatility have less of an impact on average annual returns than one would expect.

As these hypothetical scenarios demonstrate, as market cycles turn investment losses, it will typically be followed by a recovery. In four out of our five scenarios, the initial investment has achieved substantial growth within just three years (the fifth scenario has not yet reached the three-year mark). While it is always incumbent on investment managers to steer a steady and opportunistic course through periods of volatility and uncertainty, investors should note that staying invested during these periods does not necessarily hamper long-term returns, in fact, the opposite appears to be true. Investors who invested at the peak prior to a crash could undoubtedly feel extremely unlucky initially. However as we have seen above, investors who stay the course have historically been rewarded for their patience and focus on the longer term.

If your investors are considering diversifying their portfolio across both geographies and asset classes, then speak to one of our team today about Blackfinch Asset Management – part of a wide range of ESG-aligned (Environmental, Social and Goverance) investments available from Blackfinch Investments.

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Your capital is at risk. The value of your investments could go up as well as down and you may not receive back the full amount you invest.

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