OUT OF THE ORDINARY

The case for staying invested when markets are volatile

This year has been a challenging time for investors but it's important to maintain perspective. Downturns happen frequently and are a perfectly normal part of the economic cycle. While volatility can be unsettling, if you ignore the market noise and stay invested you're likely to be better off in the long run.

Amid soaring inflation, rising interest rates, supply chain issues and the war in Ukraine, it's been a bumpy ride so far this year for the markets. The FTSE 100 experienced its biggest monthly drop in June since the start of the pandemic, while the S&P 500 had its worst first half in more than 50 years. Stocks in Europe and Asia have also suffered heavy falls, while a range of other assets recorded significant losses, including bonds.

At the start of the year, investors had to contend with the implications of higher interest rates needed to bring down inflation, which hit growth stocks particularly hard. Then came the Russian invasion of Ukraine, which caused energy prices to climb even higher. This fed through to inflation, resulting in central banks raising interest rates further in order to try to bring rising prices under control.

Rate hikes and inflation are expected to compound the global economic slowdown we're seeing at the moment, sparking fears of a possible downturn for major economies. Some economists are even forecasting that the US could slip into recession towards the end of the year.

Don't give in to your emotions

Although the ups and downs of the markets are affecting portfolio performance, it's important not to react by making irrational investment decisions. Market volatility is running high and even experienced investors might be thinking about moving their funds into less risky investments.

However, it's usually best to try to avoid acting on your emotions – in this case fear – or predicting what you think will happen next or you could find yourself making the wrong decisions. When the pressure is on, it can be all too easy to revert to reflexive thinking, when you rely on your intuition – which can lead to investment errors. If you act too quickly, you're more likely to make costly mistakes, like selling when prices are low or buying when they're high.

Additionally, cognitive biases can cause investors to make emotion-led, irrational decisions that can hurt portfolios in the long term. For example, loss aversion describes how the pain of losing is more powerful than the pleasure of gaining.

Fear of loss can often make people unsure of when to invest, what stocks they should choose and how long to ride out fluctuations in the market. It also means investors might hold onto a plummeting stock long after it's dead in the water in the hope it recovers as they want to break even.

When market volatility is running high, it can be tempting to change course, but giving in to fear or your gut instinct can cost you dearly. While market swings can be unsettling, you have to make sure you keep a clear head and avoid being distracted by any emotions.

Time in the market

Timing the market's highs and lows is like rolling dice, which can see you missing out on the best days and potentially being caught out by the worst days. Markets are volatile and go through cycles of expansion and contraction, so their normal ups and downs are difficult to predict.

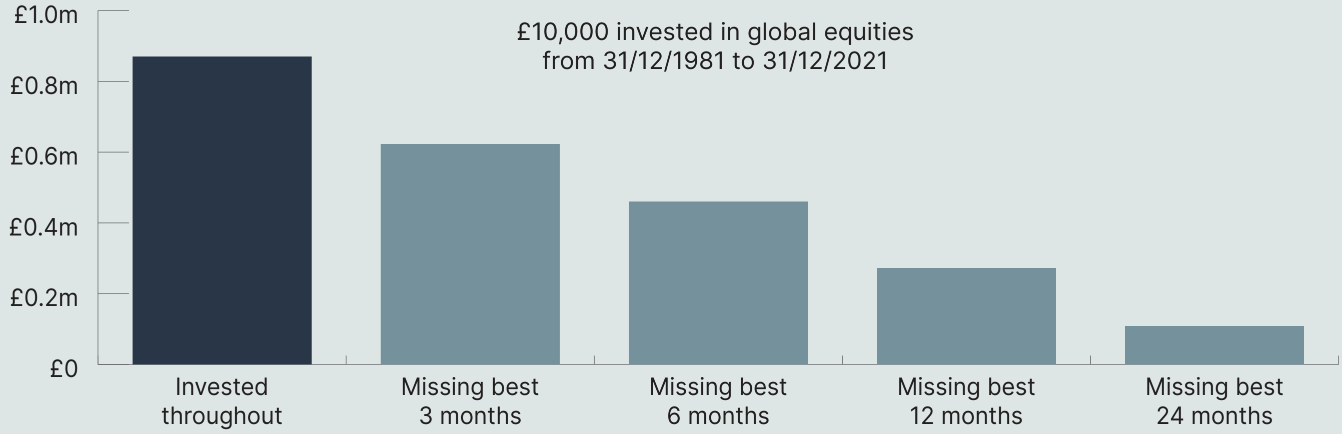
While it's natural to have a reaction to market swings or events, investors who pull their money out at the first sign of trouble could miss out on potential longer-term growth. Meanwhile, panic selling can significantly reduce returns for long-term investors, causing them to miss the best days.

So historical data suggests that it's time spent in the market – rather than timing the market – that really matters when investing. This means taking a long-term approach to investing, rather than attempting to time the short-term ups and downs.

For example, if you invested £10,000 in global equities on 1 January 1982 it would be worth £870,129 some 40 years later (figure 1). However, if you missed the best three months your investment would be £621,964. By missing the best 24 months it would be significantly lower at just £107,420.

Figure 1: The real cost of missing out

Investors have achieved greater returns when they remained invested over the long term



Source of data: Refinitiv Datastream. Past performance is not a guide to future performance.

Not only is it difficult to anticipate when a decline is coming, it's also difficult to predict when the rebound will happen, even for the experts. Trying to time the market can severely compromise a portfolio's value, which is why it's almost always a good idea to stay invested, even when the going gets tough.

The best periods of stock market performance frequently follow the worst days, especially in periods of above-average volatility. So if you sell up at the bottom, you could miss out on the recovery. If something happens that affects the markets, remain calm and avoid making any knee-jerk decisions.

Markets almost always recover

When markets are volatile, even seasoned investors might feel selling is the right thing to do. However, decades of market data show they have always recovered and there's every reason to expect they will do so again. Yet it can take time, which is why it's important to remain invested when conditions are challenging.

No matter how bad the crashes have been throughout history, markets have bounced back, and then gone on to reach new highs (figure 2). For example, when the stock market crashed in the financial crisis of 2008, it took four years for the markets to recover. It began with the collapse of the housing bubble in the US, which caused the worst global recession since the 1930s.

This triggered panic in the stock market and brought many financial institutions and businesses to the brink of collapse. By the end of the year the FTSE 100 was down 31%, its worst annual performance since the index was created, while the MSCI World Index fell 19.3%. Governments quickly responded to the crash to limit the fallout, while central banks lowered interest rates and introduced stimulus measures to help markets recover.

Stay invested for the long term

It can be alarming for investors when they see the value of their portfolio fall during a bear market (when stock markets fall at least 20% for 60 days or more). But it's important to remember that bear markets tend to be short-lived, lasting less than a year on average.

For instance, in March 2020 the Covid-19 pandemic triggered one of the most dramatic crashes in stock market history. Despite the fall, the stock market recovered ground quickly, reaching record highs by the end of the year.

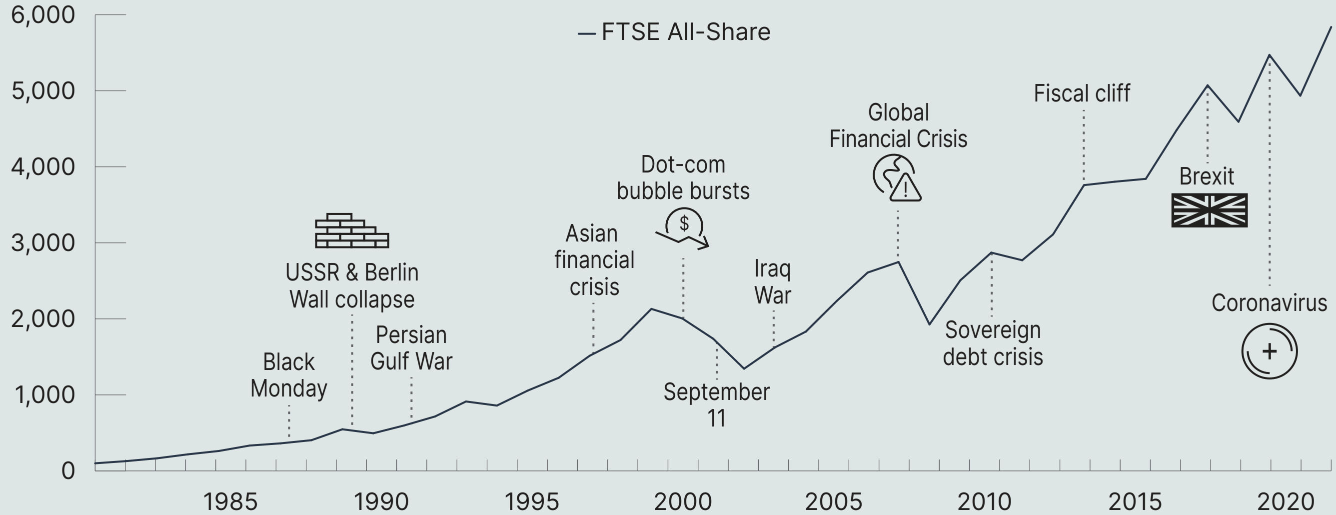
While it can be tempting to sell to avoid further losses, if you do this there's a strong chance you'll miss out. The biggest gains often come shortly after corrections or big losses in the market, which means your safest bet is to stay invested.

This is why it's important to ignore the noise and avoid making short-term emotional decisions. If you watch the markets closely, it can sometimes feel as if the turmoil is never-ending. But while volatility can be extremely uncomfortable, it can also create opportunities for long-term growth.

History shows that over the long term equities tend to perform more strongly than other asset classes (figure 3). So if you can see past the downswing and stay invested, you'll be able to reap the benefits when you come out the other side. Working with a financial adviser can help you ignore short-term thinking so you remain focused on the long term, ensuring your portfolio is in a position to capture what the market has to offer.

Figure 2: What goes down, comes back up

Despite market pullbacks, stocks have risen over the long term (100 = 31 December 1981)



Source of data: FTSE All-Share Index. Past performance is not a guide to future performance.

The role of a trusted adviser and keeping a level head

Investing is a process that requires time and patience as well as the ability to keep a level head. When markets are volatile it can be easy to let emotions drive your investing choices, but when your feelings start to cloud your decisions it's time to take a step back.

An experienced and knowledgeable financial adviser or investment manager who has access to a wealth of market data and information can help cool your excitement during the good times and ease your fears during the bad. As they're not invested emotionally they can help you work towards the best long-term outcome, outriding any waves of volatility.

They can also build a diversified portfolio that not only takes advantage of market opportunities but can also weather any storms. By spreading your investments across different asset classes, geographical regions and industry sectors you can reduce the risk that all of your investments will experience the same negative impact at the same time.

For example, having bonds in your portfolio can provide a cushion that protects you from a stock market downturn. Historically, by mitigating downturns this way, diversification has helped the value of portfolios recover sooner.

Navigate the risks and capture the opportunities

An active investment manager can help manage risk, adjusting your portfolio in response to current market conditions. This means they can potentially protect investors from any substantial losses during a market downturn.

Periods of volatility in the market can also give active managers the opportunity to better position portfolios for the long term.

Sometimes there are short-term fluctuations in the market, which active managers can take advantage of by adding high-quality stocks at more reasonable valuations.

It's been a challenging year for investors so far, but history shows that sticking with an investment strategy that's aligned to your financial goals tends to deliver the best results. Staying invested allows you to benefit from the growth in the economy and businesses over time, helping you to reach your long-term goals.

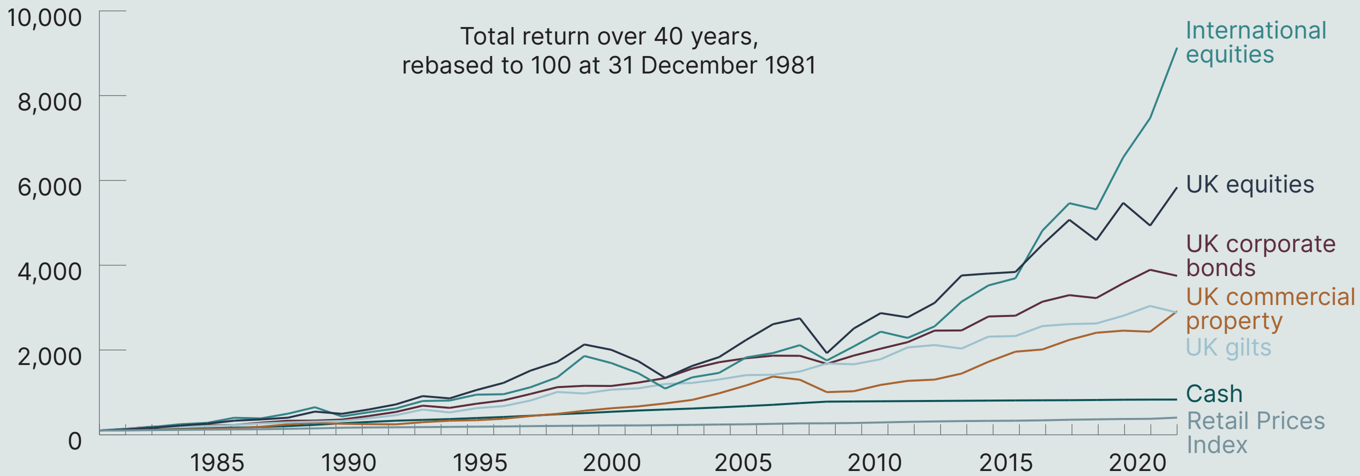
Markets will always rise and fall, so it's important to look past short-term headwinds, avoid emotional decisions and maintain a long-term investment horizon. This way you won't miss the best days in the market, giving your investments the best opportunity to grow.

AT A GLANCE

- When markets are volatile it's important to stay invested so you don't lose out when they rebound.
- Historically, markets that have fallen have recovered and gone on to reach new highs.
- If you sell when markets are falling, there's a high probability that you'll miss out on gains later.
- History shows us that over the long run equities tend to outperform other assets.
- Active portfolio managers can look for ways to protect your portfolio from a wide range of risks when market conditions are volatile.

Figure 3: Ignore the stock market turmoil

History shows us equities perform best over the long term



Source of data: FTSE, MSCI. Past performance is not a guide to future performance.

Investec

The information contained within this brochure does not constitute financial advice or a personal recommendation. Investors should remember that the value of investments, and the income from them, can go down as well as up and that past performance is no guarantee of future returns. You may not recover what you invest.

Belfast	02890 321002	**Cheltenham**	01242 514756	**Guildford**	01483 304707	**Manchester**	0161 832 6868
Birmingham	0121 232 0700	**Edinburgh**	0131 226 5000	**Leeds**	0113 245 4488	**Sheffield**	0114 275 5100
Bournemouth	01202 208100	**Exeter**	01392 204404	**Liverpool**	0151 227 2030		
Bristol	01172 444 860	**Glasgow**	0141 333 9323	**London**	020 7597 1234		

investecwin.co.uk

IWI1519 v1 07/22