Top tips for staying calm in today's markets

March 2020

Top tips for staying calm in today's markets

At times like this, it is sometimes worth reminding ourselves that it is this very uncertainty of shorter-term market outcomes that delivers investors with returns above those of placing bank deposits. This allows us to grow our purchasing power over time. In the case of equities, this uncertainty can be high as the market adjusts its view of long-term earnings and the discount rate it uses to establish market prices. If there was no uncertainty, then there would be no equity premium.

In contrast to the recent sensationalist headlines, such as the BBC's *'Coronavirus fears wipe £200 billion of UK firm's value'* the never-published headline of '*Over the past 10 years global equity markets have turned £100 into £266, so giving a bit back is perhaps to be expected*[i]*'* provides some comfort to those already invested. To those who aren't invested or have money to invest, stocks are cheaper than they were at the start of the year. Good news does not sell as well as bad news!

You may be asking yourself whether this health-driven market event is different to those that have gone before. It is, but only because every market fall is driven by a different combination of events that impact on future corporate earnings. What should remain the same is your response to it: avoid panic, avoid unnecessary emotionally driven investment activity, believe in your portfolio and the power of markets and capitalism to recover in time.

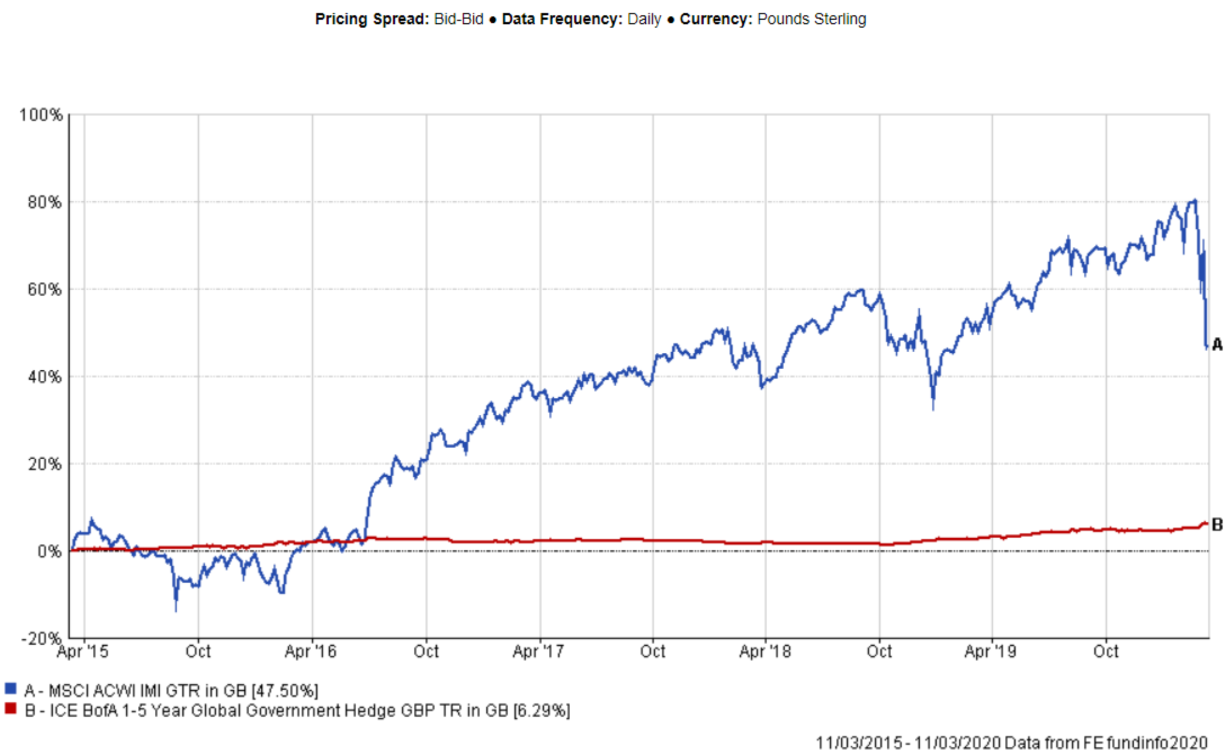
Here are some tips to help keep things in perspective:

10 things to remember during markets fall.

1. Embrace the uncertainty of markets – that's what delivers you with strong, long-term returns. Remember that you most likely own bonds in your portfolio too. Your portfolio won't be down as much as the headlines.
2. Don't measure your portfolio's performance from the top of the market, but over a longer and more sensible timeframe. Take a look at the charts on the next page. Over the past five years, investors have received handsome growth. Even over the past year, equities are only a little below where they started.
3. Don't look at your portfolio too often. Get on with more important things. Once a year is more than enough. If you are looking every day, then have a word with yourself. Stop listening to the news too, if it worries you.
4. Accept that you cannot time when to be in and out of markets – it is simply not possible. Resign yourself to the fact. Hindsight prophecies – *'I knew the market was going to crash'* – are not allowed.
5. If markets have fallen, remember that you still own everything you did before (the same number of shares in the same companies, and the same bonds holdings).
6. Most crucially, a fall does not turn into a loss unless you sell your investments at the wrong time. If you don't need the money, why would you sell? Falls in the markets and recoveries to previous highs are likely to sit well inside your long-term investment horizon i.e. when you need your money.
7. The balance between your growth (equity) assets and defensive (high quality bond) assets was established by your adviser to make sure that you can withstand temporary falls in the value of your portfolio, both emotionally and financially. If necessary, your adviser may rebalance your portfolio to make sure that you have the right level of equities to benefit from future market rises.

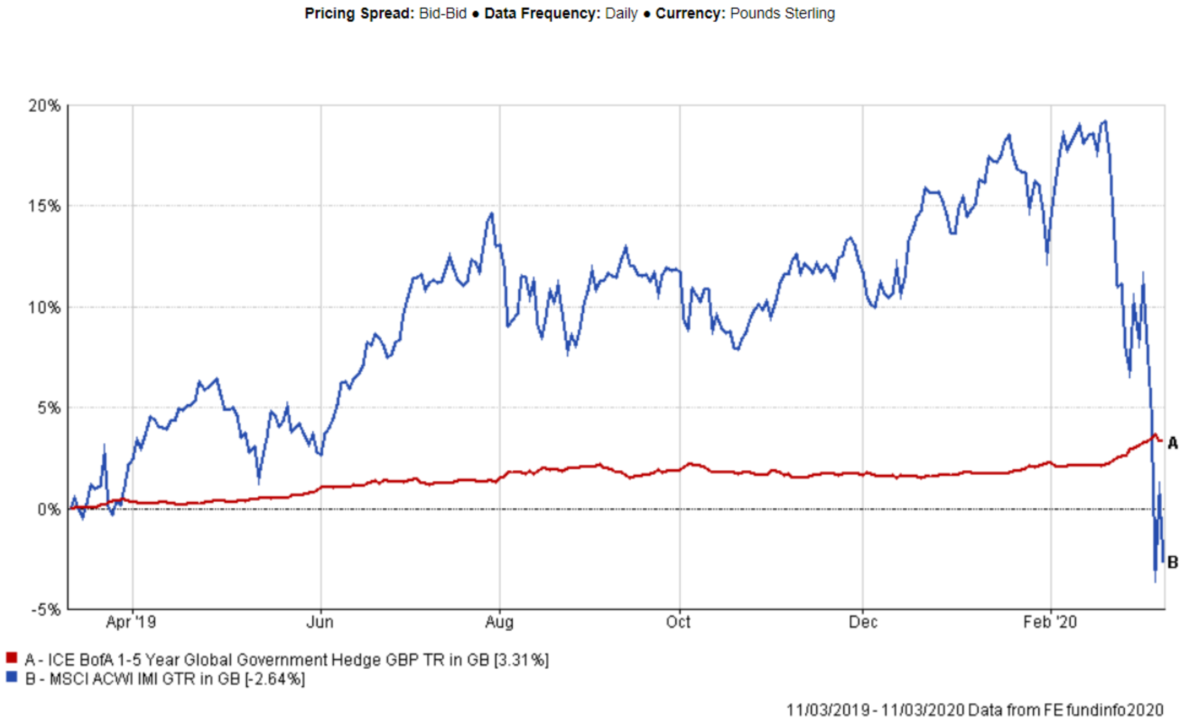
8. Be confident that your (boring) defensive assets will come into their own, protecting your portfolio from some of equity market falls. You can see this in action in the one-year chart below. Be confident that you have many investment eggs held in different baskets.
9. If you are taking an income from your portfolio, remember that if equities have fallen in value, you will be taking your income from your bonds, not selling equities when they are down.
10. Your adviser is there – at any time – to talk to you. He or she can act as your behavioural coach to urge you to stay the course. They are a source of fortitude, patience and discipline. In all likelihood they will advise you to sell bonds and buy equities, just when you feel like doing just the opposite. Be strong and heed their advice.

Figure 1: Five-year returns of global equities (developed and emerging) and high quality bonds



Data source: FE Analytics 2020 © All rights reserved.

Figure 2: One-year returns of global equities (developed and emerging) and high quality bonds



Data source: FE Analytics 2020 © All rights reserved.

[1] *Data: MSCI ACWI IMI Index 1/2010 to 2/2020. Source: Morningstar Direct © All rights reserved.*

Risk warnings

This article is distributed for educational purposes and should not be considered investment advice or an offer of any security for sale. This article contains the opinions of the author but not necessarily the Firm and does not represent a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable but is not guaranteed.

Past performance is not indicative of future results and no representation is made that the stated results will be replicated.

Errors and omissions excepted.