IPM Draper

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Volatility is a Normal Feature of Investment Markets

When there is volatility in stock markets, it causes anxiety for investors and pension fund holders. We wish to give you our thoughts on how to view your investments in times of volatility.

Don't Panic

Firstly, all of your concerns are very understandable and to be expected, as no-one likes to see their wealth reduce. We feel your pain and indeed we share it, as our own funds are invested in the same way. We want to give you a few thoughts on why we believe the best approach is to sit tight, definitely not to panic and to stick to your financial plan. Rash decisions taken today are likely to hurt you in the long run.

There is Nothing Unprecedented About a Market Correction

Stock market corrections happen regularly as part of the normal investment cycle. If you think back to a major correction which happened as a result of the economic crash in 2008/2009, people felt markets would never recover. The bottom of the market came on 6th March 2009, when the S&P 500 index sat at 666 points. Roll forward ten years then to 6th March 2019, and the market stood at 2,792 points, an increase of over 310%.

Now we can't promise this will happen again, but decades of history tell us that the markets increase on 4 days for every single day that they suffer a loss. Stock markets have shown time and again in history that they fall and then they recover and push further ahead.

So This Volatility is Normal?

Volatility, while uncomfortable, is normal. Of course, there are times of low volatility in markets and other times, when this is heightened. Again, this is simply a feature of investment markets.

The Key is Time in the Market, Not Market Timing

Some people asked should they move to cash... We don't have a crystal ball as to where markets will go, but we know from experience that trying to time markets is folly. What inevitably happens is that people exit markets when they are cheap (after they have fallen), and then as they rebound again, investors go back in too late when the market is expensive. How do you know when is the right time to go back in? What will the recovery look like? Who know if it will be V-shaped, U-shaped or even "Nike Swoosh" shaped! Time in the market as opposed to market timing is the key to success, so we suggest you sit tight, ignore the short-term volatility and maintain your long-term perspective.

The attached shows a graph of multi-asset fund performance over the last 30 years. We can see that volatility in the markets caused significant dips, such as in 2008 and particularly in 2020 with the Covid19 pandemic.

However, for say a pension investor with funds invested in a multi-asset portfolio in 1990 would now be enjoying a very healthy return as they set sail into retirement.

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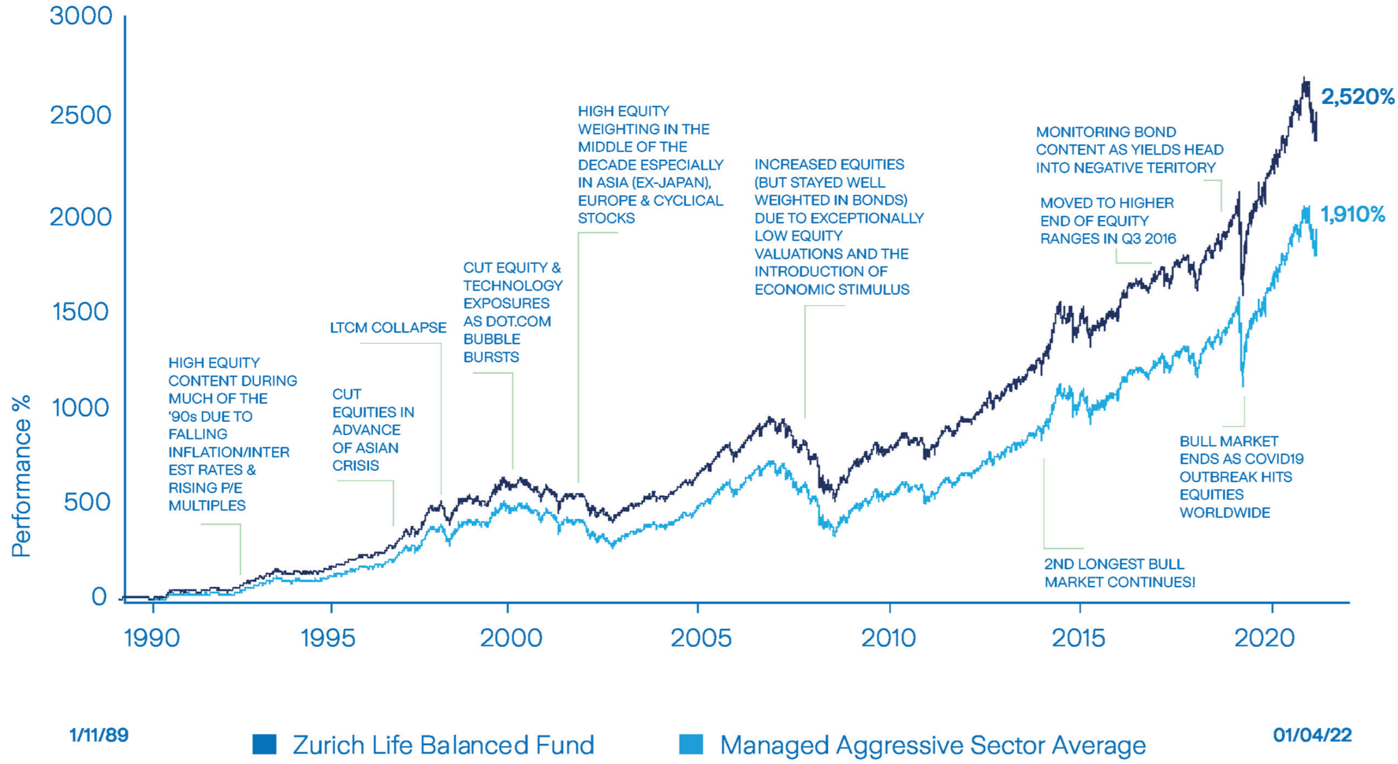
Over 30 years of multi-asset fund performance



Source: Zurich and MoneyMate, April 2022. Performance figures quoted are from fund inception date of 1/11/1989 until 01/04/2022. Annual management fees apply: the fund growth shown above is gross of any annual management charge. Returns are based on offer to offer performance and do not represent the return achieved by individual policies linked to the fund.

What Do Wise Investors Do?

The truth of the matter is that in the fullness of time, experienced fund managers will reflect on the recent falls in markets as a buying opportunity, as opposed to the time to get out of markets. If you are a regular investor into your pension fund or saving plan, now is the time to keep saving - after all, there is a temporary sale happening!

"The stock market is a device for transferring money from the impatient to the patient." Impatient people sell in depressed markets and take hurried, rash decisions that usually cost them money. Patient people sit tight.

So What Should You Do Now?

Investments are like a bar of soap. The more you pick them up and meddle with them, the more they disappear. Our advice is to ignore the short-term events and follow your plan. You are investing for a medium to long time, and this is simply one event in the market cycle. This should not throw your plan off course. However, if you would like some further reassurance, please feel free to call us as we are always happy to chat through any concerns you might have.