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Navigating the turbulent seas of fortune

Investing through volatile times

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Anyone who reads the papers knows that the world's economies are going through a period of uncertainty. It's natural at these times for some investors to get twitchy, which only serves to make the situation even less predictable.

The truth is that share prices invariably rise and fall, but for the long-term investor, this shouldn't need to be the primary concern. Historically, long-term performance tends to even things out and there are even good reasons to see opportunity where other investors are seeing only gloom.

The world of investing is overflowing with metaphors, adages and fables, so here are our top seven principles for keeping your head when all about you are losing theirs.

Investing can feel like a hazardous voyage particularly during turbulent times. This is when our horizon can veer towards the shorter term, we have selected three of our principles to focus on that are particularly relevant to current market conditions.

Stay invested: The perils of missing the best days

When markets are volatile, it is often tempting to exit the market or switch to cash in an attempt to reduce further expected losses. However, it is impossible to time these movements correctly as no-one has a crystal ball to predict future

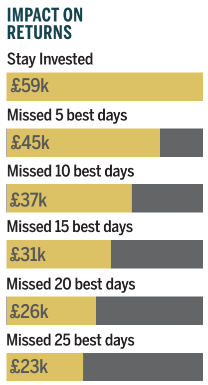
movement, so being out of the market for just a few days can have a devastating effect on returns. Using UK equities as an example, the chart (right) shows how missing just a few of the best days can have a devastating impact on returns.

Over the last 25 years, using the example of a £10,000 initial investment, an investor who stayed in the markets throughout the period could have a potential return of more than double that of an investor who missed the best 25 days.

Invest for the long-term: Our proposition rewards the patient investor

Wise investors know that investing is a long-term commitment. Historically, investors who have been able and willing to ride out the periods of decline in the markets have seen their investments recover. Investing with a long-term outlook and with long-term goals is the best way to reduce the impact of stock

Andy and Elliot meeting with Trevor Greetham at Royal London for a market update.



Source: FE Analytics, period 31/03/1993 to 31/03/2018

1. Have an investment plan and stick to it
2. Start investing as soon as possible
3. Don't just invest in cash
4. Diversify and always consider your investments as a whole
5. Invest for the long-term
6. Stay invested
7. The best investment is advice

market fluctuations and see out periods of volatility. Taking the last 25 years, there have been many examples of short-term volatility but over the long term the trend is a rising one.

Steering a course towards a longer-term investment horizon will always require a steady hand on the tiller in the shorter term. These fundamental principles are a useful reminder of the strategies that will continue to benefit our clients.

Don't just invest in cash: The eroding power of inflation

It is often tempting to see cash as a safe haven against all market volatility. However, recent years have seen higher rates of inflation and lower rates of interest on your cash. The pressure that inflation can place on your cash can be very debilitating and in the long run not being invested in the markets can be inherently riskier than being invested.

At just 2.5% inflation, an investor would lose nearly half of their purchasing power over 25 years. So, £10,000 today would only have the purchasing power of £5,310 in 25 years' time.

Interest rates have always historically outstripped inflation. Investing in a standard interest-bearing bank account would have provided some protection against the ravages of inflation. However, looking forward interest rates are expected to stay below inflation.