Insights

IT'S ALL ABOUT TIME, NOT TIMING

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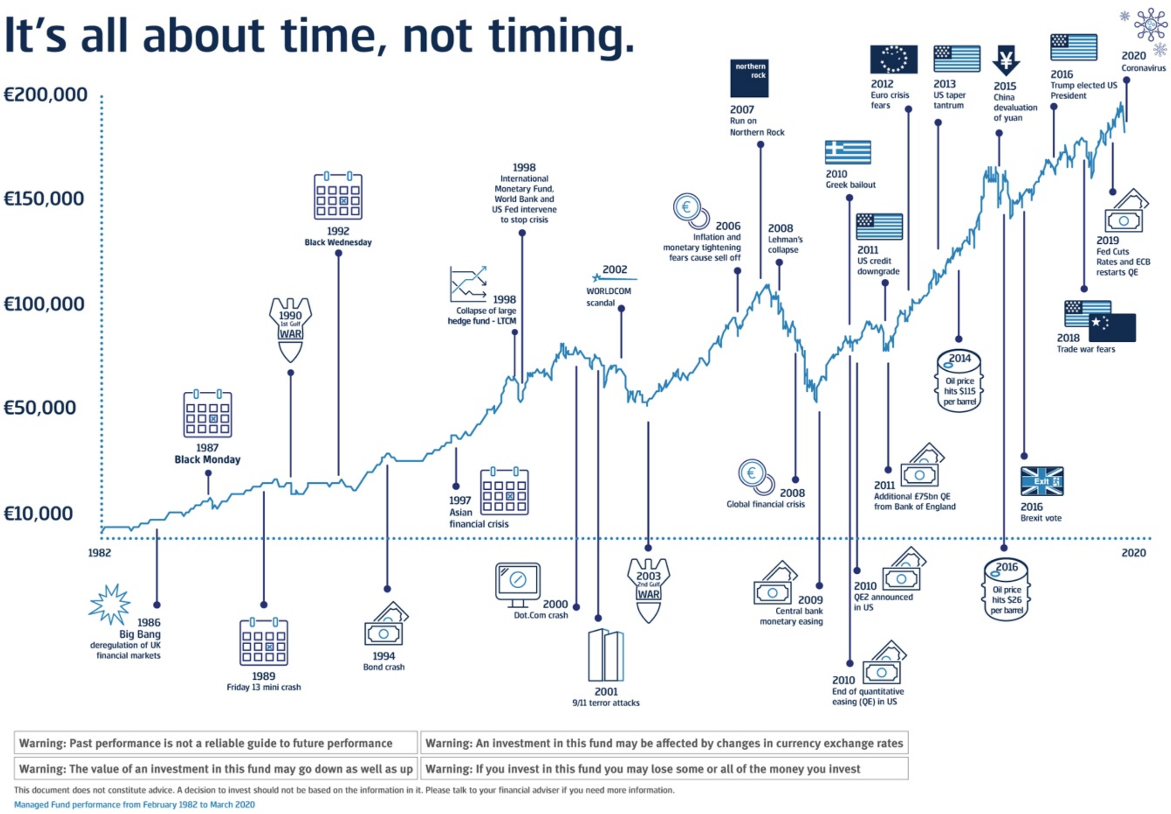
In light of the extraordinary position we current find ourselves it is important to note that we have been here before. While the reason for the market correction is unique the impact is none the less dramatic. The main thing is we must do is maintain calm and not make any knee jerk decisions that will have dramatic long term impact on our portfolios.

You should note that policymakers and responses have been mobilised although effectiveness will be mixed and the long term impacts are unknown the primary aim is to prevent a financial crisis not to offset a near term investment market drawdown. Unfortunately the likelihood of a global recession has increased and all of this has led me to revert back to the very basics of investment theory. This is theory that has stood the test of time through all the major historically events. View the graphic below.



Please understand that negative market corrections are the norm and not the exception. They happen, the world adjusts and we move on. Looking at the graphic above consider the events that have occurred and attempt to re-call how the events were portrayed at the time.

Make no sudden movements!

The holy grail of investing is buying into the market when it is at it's lowest and to sell when it peaks. Unfortunately predicting these peaks and troughs is impossible and anyone achieving has done so by luck. Anyone who claims they can achieve this is absolutely mis-leading you.

What drives the market is the emotion driven decisions that investors make and non-more so than during times like these. The two main emotions that drive us are FEAR & GREED. Fear leads us to make poor decisions quickly and greed leads us into positions that are more often than not ill timed.

The emotional roller coaster demonstrated by the graphic above gives a clear example how emotional decision making evolves. We as humans tend to work towards minimising risk, we tend to seek comfort in the "herd" and only investing when we feel it is generally agreed it is the right time to do so. That tends to happen at the upper end of the curve (excitement & thrill). The opposite occurs when things start to turn towards the negative and our expectations are not being met and we head towards despondency and that is when we tend to sell out and crystalise our investment losses.

So what should we do?

1. Keep Your Fears in Check

There is an old saying on Wall Street: "The Dow climbs a wall of worry." In other words, over time the Dow has continued to rise despite economic woes, terrorism and countless other calamities. Investors should try to always separate their emotions from the investment decision-making process. What seems like a massive global catastrophe one day may be remembered as nothing more than a blip on the radar screen a few years down the road. Again refer to the first graphic above.

2. Average Down Costs With Euro Cost Averaging

The most important thing to keep in mind during an economic slowdown is that it's normal for the stock market to have negative years—it's part of the business cycle. One option is to take advantage of euro cost averaging. By purchasing investment units regardless of price, you end up buying shares at a low price when the market is down. Over the long run, your cost will "average down," leaving you with a better overall entry price for your shares.

3. Play Dead

During a bear market, the bears rule and the bulls don't stand a chance. There's an old saying that the best thing to do during a bear market is to play dead—apparently it's the same protocol as if you met a real bear in the woods. Fighting back would be very dangerous. By staying calm and not making any sudden moves, you'll save yourself from becoming a bear's lunch. Playing dead in financial terms means trusting the long term plan and allowing the business cycle to play out.

Still, as you mull the possibility of a bear market, keep this in mind: Most investors who bailed out of their investments during the "Financial Crisis" regretted it later. Pulling money out of a declining market means having to decide when to jump back in to capitalise on a recovery. The number of investors who can correctly identify the beginnings and endings of bear markets could fit on the back of a stamp, which in turn is one big reason most individual investors underperform the markets.

A recent study from Morningstar frames the issue starkly. From 1997 through 2017, the S&P 500 returned 7.2% annually. But if you had been on the sidelines, for whatever reason, and missed the market's 30 best days—a tiny fraction of the 5,217 trading days during that 21-year span—your stock portfolio would have lost 0.9% annually.

The bottom line, in a market that has registered three times as many up years as down years over the past century, staying invested usually pays off over time.

Generally speaking we are recommending that all clients remain invested in their current investment strategy. As the weeks pass and we get to the end of this pandemic and we all return to work , your adviser will be in contact to advise on your specific investment strategy and how to move forward.

Most of us invest for the future of ourselves and that of our families. Investments will always recover and we will be there in the future to guide you through these and future events.

Please take care and stay safe.

Always seek the advice and support of your investment adviser before making any significant changes to your investment positions.

This outlook and commentary does not constitute an offer and should not be taken as a recommendation from the author or Thomond Asset Management. Advice should always be sought from an appropriately qualified professional.

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