



Investing through  
volatile times

# Seven principles of investing

*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 less savvy 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. Please speak to a financial adviser before making a decision to invest.

*The truth is that no one knows with certainty when markets will rise or fall. Trying to time the market is not only stressful, it is very seldom successful.*

## 1. Get advice

*Every single investor's needs are different and, while the points below are good general tips, there's no substitute for a plan that's tailored specifically for you.*

The role of a financial adviser is to get to know you and your attitude to risk versus reward; and then to navigate you through your investment journey. What's more, in turbulent times, advice helps you take the emotion out of investing and provides an objective view. It may just be the best investment you ever make.

## 2. Make an investment plan and stick to it

*It is one thing to have a target, but a sound financial plan can be the difference between simply hoping for the best and actually achieving your goals.*

It helps you to stay focused on your long-term aims without being distracted by short-term market changes. The best way to formulate your plan and ensure it stays on track is with a professional financial adviser. They will talk to you about what you want to achieve for you and your family, your current situation, and your attitude to risk versus potential rewards. As well as tailoring a plan specifically to you, they can monitor its progress and recommend ways to keep it on course.

## 3. Invest as soon as possible

*The earlier you invest the better. There is a reason that compounding, the ability to grow an investment by reinvesting the earnings, was referred to by Albert Einstein as 'the eighth wonder of the world.'*

The magic of compounding allows investors to generate wealth over time, and requires only two things: the reinvestment of earnings and time. The difference of just a few years can make a massive difference to your end result.

## 4. Don't just invest in cash

*When markets are volatile it's a big temptation to put all your investments in the relative safety of cash. It may seem like a safe bet. However, as they say, a ship is safe in harbour, but that is not what ships are for.*

Every investor does need at least some part of their funds in liquid investments in case of an emergency, but low risk usually leads to lower returns.

For anyone with longer term investment plans it needs to be supplemented with investments in other asset classes that offer better capital growth potential and beat the perils of inflation.

## 5. Diversify your investments

*When markets are fluctuating wildly it's all too easy to worry about the performance of certain investments while forgetting about the bigger picture. One tree with stunted growth doesn't necessarily mean the rest of the wood isn't thriving.*

Similarly, when one asset class is performing poorly others may be flourishing. A diversified portfolio including a range of different assets can help to iron out the ups and downs and avoid exposing your portfolio to undue risk.

## 6. Invest for the long-term

*Many people believe that knowing when to buy and when to sell is the secret of successful investing. The truth is that no one knows with certainty when markets will rise or fall. Trying to time the market is not only stressful, it is very seldom successful.*

It's far better to use time to your advantage. The sooner you can start investing, and the longer you can invest, the more likely you are to have the potential for healthy returns and achieve your financial goals, regardless of short-term blips.

## 7. Stay invested

*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. Make a plan, stick to it, and don't try to time the market.

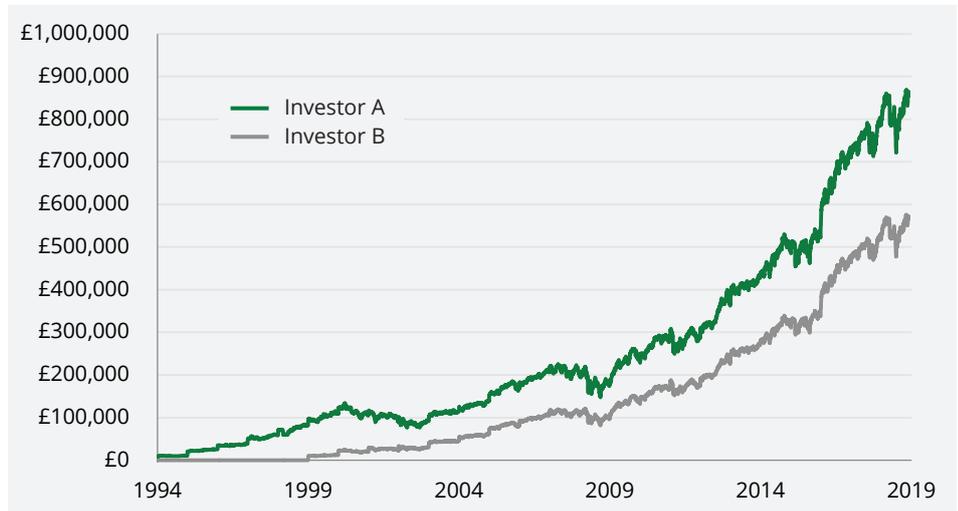
# Invest as soon as possible

The advantages of starting early

*Compound interest, often referred to in financial services as the 8th wonder of the world, can have an incredible effect on an investment portfolio.*

The chart to the right shows two investors who both invest £10,000 every year into global equities. However, Investor A began in June 1994 and Investor B started five years later.

Over 25 years, Investor A has accumulated savings of £888,921, compared to savings of £588,889 for Investor B, over £300,000 more! If Investor B wanted to accumulate the same pot they would need to invest £15,095 every year!



**Past performance is not a guide to the future. The value of units may fall as well as rise.**

Source: Quilter Investors as at 30 June 2019. Based on an initial investment of £10,000 into the MSCI World Index over period 30/06/1994 to 30/06/2019. The information provided is for illustrative purposes only and doesn't represent the past performance of any particular investment. **It is not possible to invest directly into the MSCI World Index.**

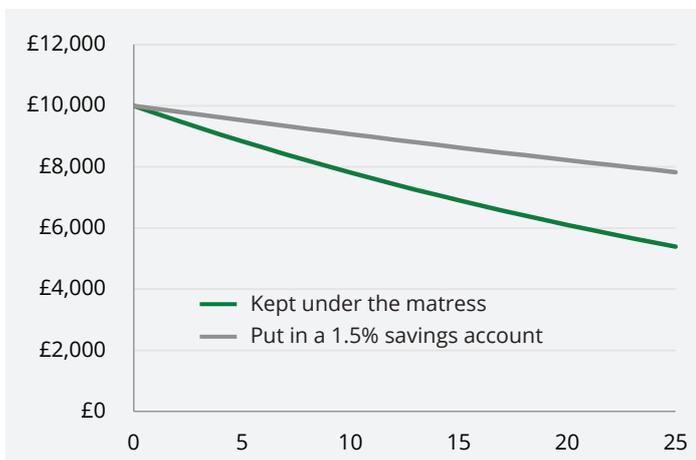
# Don't just invest in cash

The impact 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.*

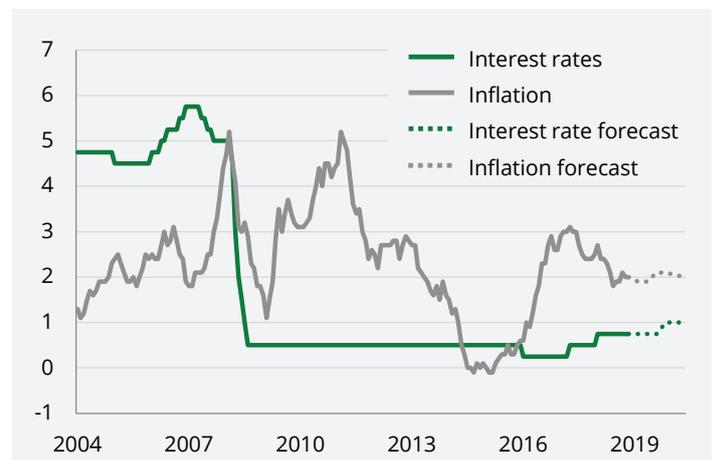
## The eroding power of inflation

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 £5,394 in 25 years time.



## Low future interest rates

Historically, interest rates have normally 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.



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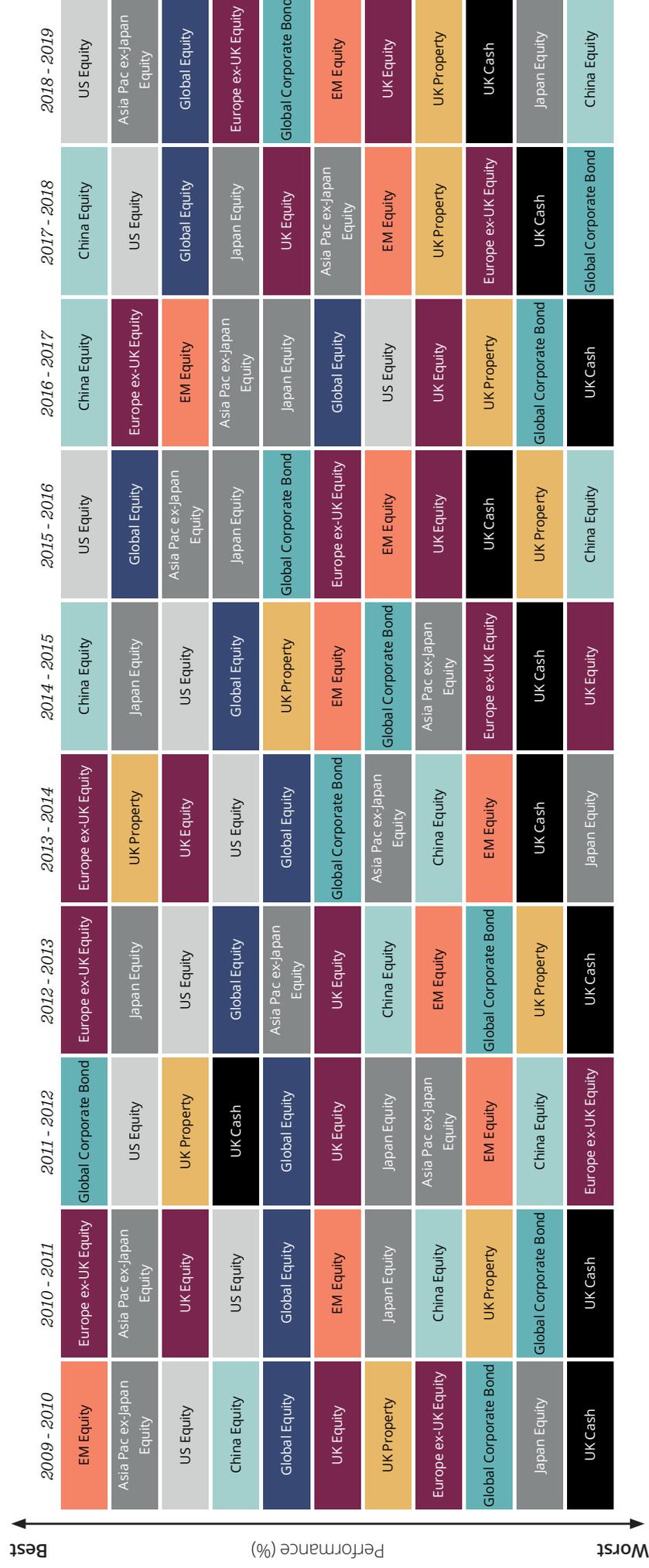
Source: Quilter Investors as at 30 June 2019. Interest Rate is represented by the Bank of England Base Rate and inflation is represented by the UK Consumer Price Index (CPI) over period 30/06/1998 to 31/12/2020. Future interest rate and inflation forecasts are the Factset median projections.

# Diversify your investments

The importance of diversification

*There are many different asset classes that an investor can choose, each possessing different risk characteristics. The chart below shows the annual returns of various asset classes over the last 10 years.*

There is no guarantee that the sector that performs well one year will be top the next. In fact, it is often the opposite! By spreading investment across different asset types, it is possible to avoid exposing a portfolio to undue risk.



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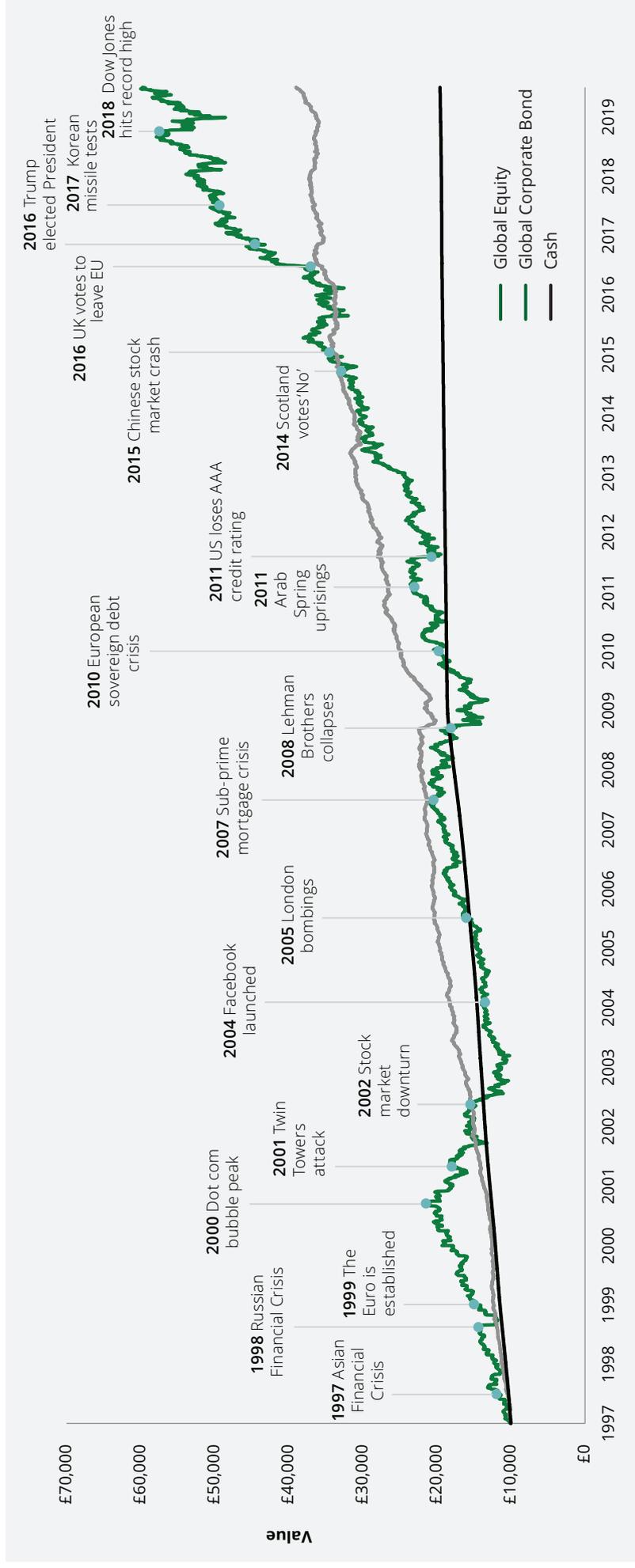
Source: Quilter Investors as at 30 June 2019. Annual returns over period 30 June 2009 to 30 June 2019. Asia Pac ex-Japan is represented by the MSCI Pacific ex-JP index; China equity by the MSCI China index; EM equity (Emerging markets equity) by the MSCI EM index; Europe ex-UK equity by the MSCI Europe ex-UK index; Global Corporate Bond by the ICE BofAML Global Corporate index; Global equity by the MSCI World Index index; Japan equity by the MSCI Japan index; UK equity by the MSCI United Kingdom index; UK Property by the IA UK Direct Property sector; US equity by the MSCI North America index; and Cash by the ICE BofAML British Pound Overnight Deposit Offered Rate. The information provided is for illustrative purposes only and doesn't represent the past performance of any particular investment. **It is not possible to invest directly into an index.**

# Invest for the long term

The benefits of long-term investing

*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 market fluctuations and see out periods of volatility. The chart below shows that short-term volatility is a characteristic of investing, but over the long term the trend is a rising one.



- **Investing for the long term** - an investor with £10,000 in January 1997 could have seen their investment grow by nearly 600% when investing in global equities.
- **Predicting when the stock market will rise and fall is almost impossible** - investing for the long-term could see investors through periods of market volatility.
- **Short-term, reactionary investing can be devastating** - trying to time the market is a fool's game and can be disastrous for investors.

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Source: Quilter Investors as at 30 June 2019. Based on an initial investment of £10,000 over the period 01/01/1997 to 30/06/2019. Global Corporate Bonds is represented by the ICE BofAML Global Corporate Index; Global equity by the MSCI World Index index; and Cash by the ICE BofAML British Pound Overnight Deposit Offered Rate. The information provided is for illustrative purposes only and doesn't represent the past performance of any particular investment. **It is not possible to invest directly into an index.**

# Stay invested

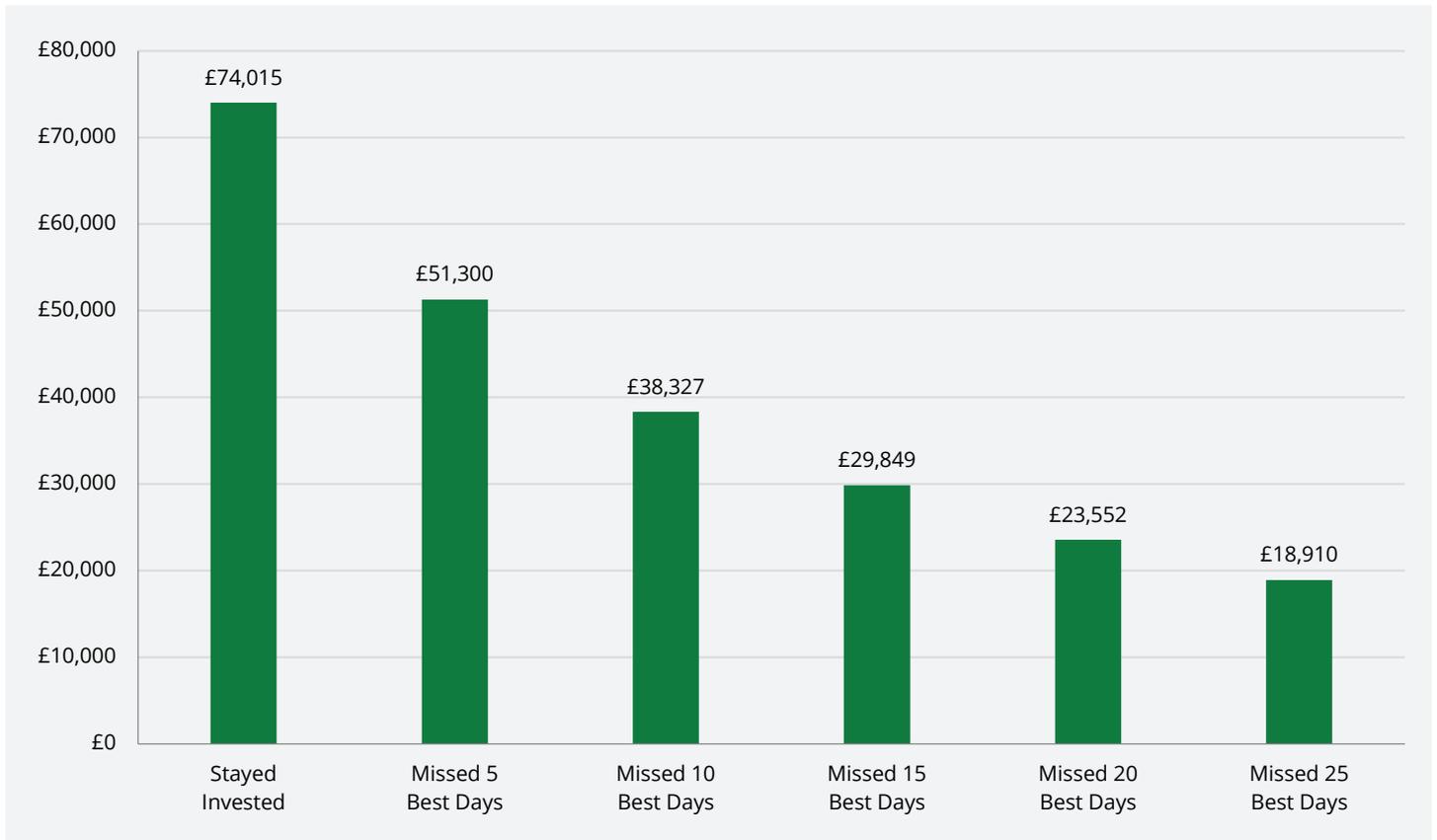
## The perils of missing the best days

*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 global equities as an example, the chart to the right shows how missing just a few of the best days can have a big impact on returns.

Over the last 25 years, using the same example £10,000 initial investment as previously, an investor who stayed in the markets throughout the period could have a potential return of nearly four times greater than that of an investor who missed the best 25 days.



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## *Important information*

***Past performance is not a guide to future performance and may not be repeated. Investment involves risk. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested. Because of this, an investor is not certain to make a profit on an investment and may lose money. Exchange rates may cause the value of overseas investments to rise or fall.***

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