Investing through volatile times

Suitable for retail investors

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.

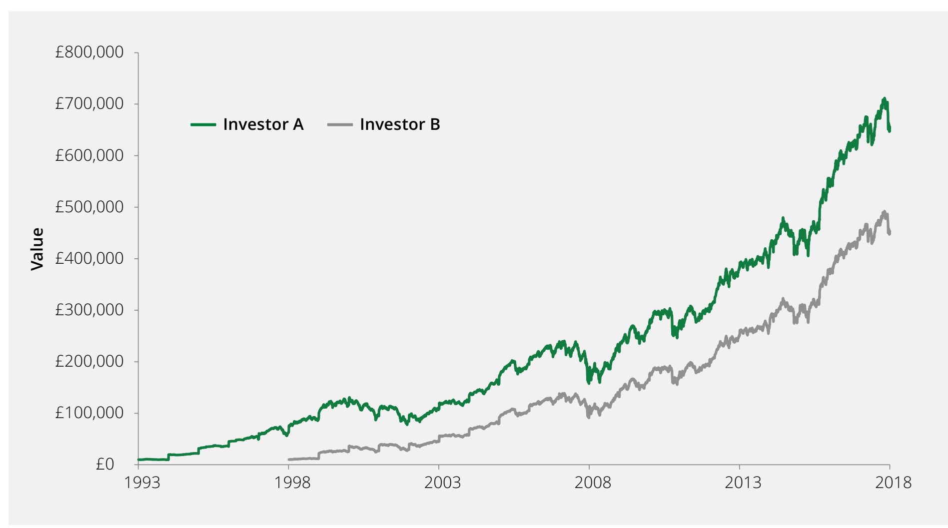
Invest as soon as possible

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 1993 and Investor B started five years later.

Over 25 years, Investor A has accumulated savings of £652,219 compared to savings of £453,754 for Investor B – over £202,465 more! If Investor B wanted to accumulate the same pot they would need to invest £21,314 every year, more than double, that of Investor A.



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

Source: FE Analytics. Total return, percentage growth, based on an initial investment of £10,000 into UK equities over the period 31/10/1993 to 31/10/2018. All asset classes are represented by their equivalent Investment Association (IA) sector. 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 IA sector.

Don't just invest in cash

The impact of inflation

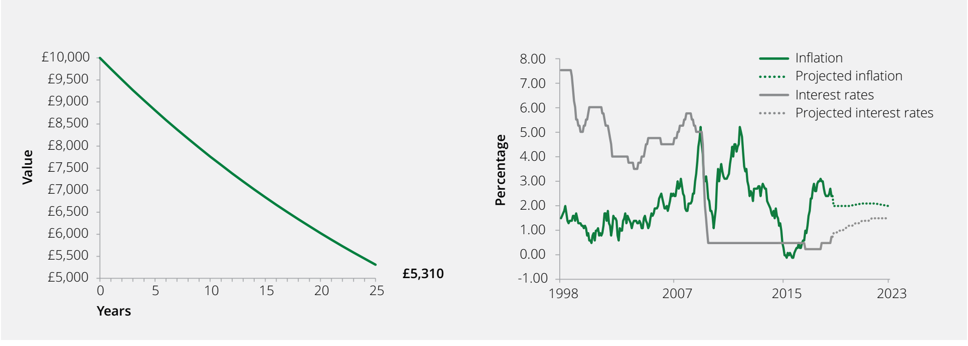
It is often tempting to see cash as a safe haven against all market volatility. However, recent years have seen higher rates of inflation and lower rates of interest on your cash. The pressure that inflation can place on your cash can be very debilitating and in the long run not being invested in the 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 £5,310 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.



Source: Interest Rate, Bank of England Base Rate, Bank of England, and inflation (CPI), Office for National Statistics over period 01/01/1998 to 01/01/2023. Future inflation (CPI) projections are from Economic and Fiscal Outlook, OBR, October 2018 and future interest rate projections are from Statista - The Statistics Portal, December 2018.

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! The diversified portfolio shown below is provided to illustrate the benefit, in general terms, of diversification. By spreading investment across different asset types, it is possible to avoid exposing a portfolio to undue risk.

Performance (%)	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
Best	China 72.75	Emerging Markets 25.72	North America 7.31	UK Equities 14.32	Japan 35.02	North America 12.50	Japan 12.87	Emerging Markets 37.15	China 24.09	North America 8.59
	Asia Pac ex Japan 62.25	Asia Pac ex Japan 24.35	Japan 2.57	Europe ex UK 12.75	Europe ex UK 32.30	Property 8.39	Europe ex UK 8.49	Asia Pac ex Japan 34.97	Europe ex UK 19.03	Property 2.08
	Emerging Markets 59.94	China 21.45	Global Fixed Interest 1.17	North America 11.09	North America 28.68	China 4.73	North America 8.24	Japan 31.97	Diversified Portfolio 16.63	Global Equities 1.13
	Diversified Portfolio 41.51	Diversified Portfolio 17.85	UK Equities 0.60	Property 8.81	UK Equities 26.76	Asia Pac ex Japan 4.37	Property 7.92	China 29.68	Asia Pac ex Japan 16.46	Cash 0.39
	Europe ex UK 34.25	North America 15.99	Global Equities 0.11	Asia Pac ex Japan 7.61	Global Equities 24.30	Global Equities 4.24	UK Equities 6.86	North America 26.56	UK Equities 15.72	Global Fixed Interest -0.19
	UK Equities 30.76	UK Equities 15.60	Cash 0.09	Global Equities 7.59	Diversified Portfolio 17.09	Diversified Portfolio 4.11	Global Equities 4.55	Diversified Portfolio 24.84	Emerging Markets 15.07	Japan -2.42
	Global Equities 25.11	Property 15.06	Property -0.69	Diversified Portfolio 6.89	China 14.66	Global Fixed Interest 1.71	Diversified Portfolio 2.47	Global Equities 23.22	Global Equities 14.23	UK Equities -3.87
	Global Fixed Interest 24.48	Global Equities 14.63	Europe ex UK -5.86	Global Fixed Interest 6.07	Asia Pac ex Japan 12.03	Emerging Markets 0.55	China 2.34	Global Fixed Interest 21.76	North America 13.75	Diversified Portfolio -6.13
	North America 14.55	Global Fixed Interest 10.93	Asia Pac ex Japan -7.03	Emerging Markets 4.71	Property 8.77	UK Equities 0.54	Cash 0.06	Europe ex UK 19.09	Japan 11.49	Europe ex UK -7.11
	Japan 12.08	Europe ex UK 8.94	Diversified Portfolio -7.49	China 3.41	Emerging Markets 6.75	Cash 0.06	Global Fixed Interest -1.57	Property 8.65	Property 4.50	Asia Pac ex Japan -10.06
	Property 4.75	Japan 7.53	Emerging Markets -9.70	Cash 0.55	Global Fixed Interest 1.84	Japan -0.27	Asia Pac ex Japan -5.28	UK Equities 7.85	Cash 0.13	Emerging Markets -11.45
Worst	Cash 0.49	Cash 0.51	China -17.57	Japan -2.28	Cash 0.21	Europe ex UK -1.86	Emerging Markets -11.43	Cash 0.22	Global Fixed Interest -0.72	China -13.46

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

Source: FE Analytics. Total return, percentage growth, over the period 31/10/2008 to 31/10/2018. All asset classes are represented by their equivalent Investment Association (IA) sector. The diversified portfolio is an equal split of all shown asset classes and has been provided to illustrate the benefit, in general terms, of a diversified portfolio of assets. It is not Quilter Investors portfolio or fund. 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 IA sector.

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 over the last 25 years 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 October 1993 could have seen their investment grow by nearly 450% 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.

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

Source: FE Analytics. Total return, percentage growth, based on an initial investment of £10,000 over the period 31/10/1993 to 31/10/2018. All asset classes are represented by their equivalent Investment Association (IA) sector. 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 IA sector.

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 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 more than double that of an investor who missed the best 25 days.

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

Source: FE Analytics. Total return, percentage growth, based on an initial investment of £10,000 into UK equities over the period 31/10/1993 to 31/10/2018. All asset classes are represented by their equivalent Investment Association (IA) sector. 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 IA sector.

Upturns have been stronger than downturns

Significant market downturns can be rapid and difficult to endure, but history suggests markets will eventually recover.

Over the past 30 years, we have seen a number of significant market declines, as the chart opposite illustrates. However, the upturns that follow have on average lasted longer and been greater. This trend helps explain why shares (equities) have historically exhibited relatively strong long-term performance.

Loss during downturn	Gain during upturn	Dates of downturn	Duration (months)	Dates of upturn	Duration (months)
-15%	57%	Feb 94/ Jan 95	12	Jan 95/ Oct 97	33
-13%	27%	Oct 97/ Nov 97	1	Nov 97/ Jul 98	8
-24%	72%	Jul 98/ Oct 98	3	Oct 98/ Mar 00	18
-10%	16%	Mar 00/ Apr 00	1	Apr 00/ Sep 00	5
-37%	19%	Sep 00/ Sep 01	13	Sep 01/ Dec 01	2
-35%	94%	Dec 01/ Mar 03	15	Mar 03/ Apr 06	37
-13%	27%	Apr 06/ Jun 06	2	Jun 06/ Oct 07	16
-34%	10%	Oct 07/ Oct 08	13	Oct 08/ Nov 08	1
-13%	20%	Nov 08/ Nov 08	1	Nov 08/ Jan 09	1
-19%	62%	Jan 09/ Mar 09	2	Mar 09/ Apr 10	13
-13%	24%	Apr 10/ Jul 10	3	Jul 10/ Jul 11	12
-19%	21%	Jul 11/ Oct 11	3	Oct 11/ Mar 12	5
-10%	60%	Mar 12/ May 12	2	May 12/ Apr 15	35
-17%	29%	Apr 15/ Feb 16	10	Feb 16/ Oct 18	33
		Average	**6**		**19**

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

Sources: FE Analytics: Total return, percentage growth of the IA Global sector over the period 31/10/1993 to 31/10/2018. It is not possible to invest directly in an index. 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 IA sector. Downturns are defined by a period when the stock market value declined by 10% or more from its peak, while the upturn period indicates the number of months from the trough of the downturn to the subsequent peak.

Important information

Past performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back any of the amount originally invested. Because of this, an investor is not certain to make a profit on an investment and may lose money. The performance data do not take account of the commissions and costs incurred on the issue and redemption of shares. Exchange rate changes may cause the value of overseas investments to rise or fall.

This communication is issued by Quilter Investors Limited ("Quilter Investors"), Millennium Bridge House, 2 Lambeth Hill, London, United Kingdom, EC4V 4AJ. Quilter Investors is authorised and regulated by the Financial Conduct Authority. This communication is for information purposes only. Nothing in this communication constitutes financial, professional or investment advice or a personal recommendation. This communication should not be construed as a solicitation or an offer to buy or sell any securities or related financial instruments in any jurisdiction. No representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in the document.

Any opinions expressed in this document are subject to change without notice and may differ or be contrary to opinions expressed by other business areas or companies within the same group as

Quilter Investors as a result of using different assumptions and criteria. Quilter Investors is not licensed or regulated by the Monetary Authority of Singapore ("MAS") in Singapore. This document has not been reviewed by MAS.

QIL-202-18/ 218-1963/December 2018