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Last week we produced an article aimed at re-assuring clients during challenging times. Hopefully it might be helpful.

https://www.avivainvestors.com/en-gb/capabilities/multi-asset-macro/multi-asset-funds/when-in-doubt/

<u>When in doubt, do nothing</u>

Key points

1. When stock markets become volatile it is important not to panic, act in haste and make decisions you later regret – sometimes doing nothing is the best course of action.
2. Falls in the stock market are inevitable. However, as we all know, when viewed over the long-term markets have gone up more than they have gone down.
3. 'Time in' the market beats 'timing' the market: It is easy to miss the best gains in the market; therefore, it is important to remain invested and allow investments the time they need to play out.

Stock markets can be volatile and challenging, at times instilling fear and nervousness into even the most steadfast of investors. Inherently unpredictable, they do not march to a nerve-calming steady drum. It is important to remember the benefits of being invested for the long term and the perils of market timing. Sometimes the best thing you can do is nothing. Instead, just stick to the long-term financial plan and allow your funds managers to deal with challenging markets. We are not saying this approach is easy; in fact, doing nothing can sometimes be the hardest decision to make. Under pressure, we all want to look busy, fearing inaction will be misinterpreted as a lack of initiative.

Nonetheless, markets can still be disconcerting. With that in mind here are three indisputable and reassuring facts to help put you and your clients at ease.

1) Stock market falls are inevitable

The uncertainty and fear of stock market falls can cause people to sell their investments at an inopportune time, or to avoid investing altogether. In reality, such falls are commonplace and do not last for very long. As an example, the US equity market[1] has suffered a fall greater than ten per cent in 30 of the last 50 years.

- Falls greater than ten per cent occur at some point in the year on six occasions out of ten.
- The size of the average market fall is 14 per cent.
- On average the market starts to recover these losses after 72 days.

2) Stock markets go up over the longer term

Despite recessions, volatility meltdowns and wars, the US equity market[1] has delivered a positive return in 39 years out of the past 50; that's 78 percent of the time.

Despite this, when the stock market falls it can be daunting to remain invested. When banks were failing and stock markets were in free fall in 2007-08, for even the most optimistic of those among us, it was hard to imagine there was going to be a strong recovery in 2009. However, when stock markets do have difficult periods it is not unusual for the subsequent period to exhibit strong investment returns. For example, March 2009 was when the S&P 500 reached its lowest point, yet by the end of the year the market was back up by 65 per cent; more than recovering the losses from the previous year.

3) The danger of being out of the market

By missing out on a very small number of days with strong returns an investor can ruin their longer-term returns. For example, if you were invested in the US equity market[1] from the end of 1999 to the end of 2019 and missed out on just the top ten days in those 20 years, your annualised return would drop from 7.1% to 3.5%. If you miss out on more days than that then the returns become even worse. By missing out on just 30 days your annualised return will be negative.

This is particularly significant for investors of a nervous disposition, because the days on which markets register their strongest gains are often following a major sell-off. So, investors who sell in response to volatility are locking in losses and potentially excluding themselves from the gains that subsequently follow.

These three simple messages are well-understood by investors when the going is good. Yet we need to remind ourselves of them, and not throw them out the window when stock markets go through their next challenging period. In truth, sometimes we just need the confidence to do nothing at all.