INVESTING THROUGH VOLATILE TIMES – **RIDING THE TURBULENT SEAS OF FORTUNE**

This document is produced by Old Mutual Wealth

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.

OLD MUTUAL WEALTH

SEVEN PRINCIPLES OF INVESTING

1. HAVE A PLAN AND STICK TO IT

It's 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.

2. DON'T KEEP ALL YOUR EGGS IN ONE BASKET

Probably the most common cliché in the world of investments, and it still holds true.

If you have invested all your money in one type of asset or a single region you are exposed to the risk of a downturn in that market hitting you very hard.

By spreading your investments across different regions and a range of different asset types (for example shares, bonds, property and cash), the result should be a lower level of overall risk, while still enjoying exposure to potentially inflation-beating returns.

3. ALWAYS CONSIDER YOUR INVESTMENTS AS A WHOLE

When markets are fluctuating wildly it's all too easy to worry too much 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. Remember to trust your diversified portfolio to iron out the ups and downs and keep your eye on the long term rather than worrying unduly about the short term.

4. IT'S TIME IN THE MARKET THAT COUNTS, NOT TIMING THE MARKET

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, regardless of short-term blips.

5. NO RISK, NO REWARD

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.

Low risk usually leads to lower returns. Every investor does need at least some part of their funds in liquid investments in case of an emergency.
But for anyone with longer term investment plans it needs to be supplemented with investments in other asset classes that offer better capital growth potential.

6. BY INVESTING REGULARLY YOU GENERALLY GET BETTER RESULTS

Research all over the world has proven that investors tend to join late in a rising market, and then achieve disappointing results when the market falls.

By contrast, when the market falls, investors stay out of the market, which means very few people are still buying at the market's lowest levels. If you are in the market with the aim of building your long-term wealth, it's better to disregard short-term performance fluctuations and to focus on your long-term goals. The wise investor continues to invest through dips in the market, knowing that the cheaper shares become, the greater the potential gain is likely when the market recovers.

7. TAKE ADVANTAGE OF ADVICE

Every single investor's needs are different and, while the points above 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.

ALWAYS CONSIDER **YOUR INVESTMENTS AS A WHOLE**

THE IMPORTANCE OF DIVERSIFICATION

Risk is a necessary and constant feature of investing; shares fall, economic conditions fluctuate, companies can occasionally go bankrupt. Indeed the returns that assets generate are typically there to compensate investors for risk. There are many different asset classes available to invest in, each possessing different risk characteristics. The chart below shows the annual returns of various asset classes over the last 10 years. The diversified portfolio is provided to illustrate the benefit, in general terms, of a diversified portfolio of assets. By spreading your investment across different asset types, you may be able to avoid exposing your portfolio to undue risk.

Performance (%)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Best	Global Fixed Interest 12.55	Global Fixed Interest 15.68	Emerging Markets 21.55	North America 9.62	North America 16.42	Europe ex UK 28.56	North America 13.89	Japan 12.85	Asia Pac ex Japan 31.94	China 30.84
	Cash 4.43	China 14.68	Asia Pac ex Japan 19.92	Global Equities 6.67	UK Equities 11.41	Japan 26.57	Asia Pac ex Japan 12.60	North America 8.14	Emerging Markets 30.18	Emerging Markets 25.27
	Emerging Markets 1.31	Asia Pac ex Japan 8.70	China 19.72	UK Equities 6.55	UK Fixed Interest 10.53	UK Equities 23.55	Emerging Markets 11.47	Property 5.71	China 28.53	Europe ex UK 23.51
	North America -0.27	Japan 4.11	UK Fixed Interest 13.99	Asia Pac ex Japan 6.19	Global Equities 6.41	North America 22.39	Property 10.40	Europe ex UK 4.58	North America 24.27	Asia Pac ex Japan 23.27
	UK Fixed Interest -1.17	UK Fixed Interest 3.19	Global Fixed Interest 12.32	Property 5.27	Property 6.04	China 19.68	Global Equities 10.11	UK Fixed Interest 2.41	Global Equities 20.32	Japan 18.59
	Global Equities -3.98	Cash 1.63	Property 11.51	Europe ex UK 4.72	Global Fixed Interest 4.85	Global Equities 19.24	UK Equities 9.67	UK Equities 1.52	Diversified Portfolio 19.72	Diversified Portfolio 17.86
	Europe ex UK -5.16	Diversified Portfolio -0.16	Diversified Portfolio 11.44	Japan 4.57	Europe ex UK 3.78	Diversified Portfolio 14.05	Diversified Portfolio 8.89	Global Equities 1.50	Japan 19.71	Global Equities 17.61
	Diversified Portfolio -6.01	Emerging Markets -0.42	UK Equities 8.73	Diversified Portfolio 3.03	Diversified Portfolio 2.53	Asia Pac ex Japan 9.27	China 8.43	Cash 0.10	Global Fixed Interest 17.45	North America 16.50
	Asia Pac ex Japan -8.94	Global Equities -6.70	North America 7.71	Global Fixed Interest 2.75	Cash 0.31	Property 7.03	UK Fixed Interest 7.99	Diversified Portfolio -0.32	Europe ex UK 15.03	UK Equities 13.77
	Japan -10.34	Europe ex UK -6.83	Global Equities 6.71	Emerging Markets 1.36	Asia Pac ex Japan -0.73	UK Fixed Interest 3.10	Europe ex UK 7.20	Global Fixed Interest -1.13	UK Fixed Interest 12.82	Property 5.37
	UK Equities -10.62	North America -8.44	Cash 0.14	UK Fixed Interest 0.30	Emerging Markets -1.87	Emerging Markets 1.65	Japan 3.21	China -2.97	Property 12.53	Global Fixed Interest 4.93
	China -11.54	UK Equities -8.57	Europe ex UK -1.54	Cash 0.22	Japan -2.88	Global Fixed Interest 1.15	Global Fixed Interest 2.85	Asia Pac ex Japan -10.25	UK Equities 8.85	UK Fixed Interest 1.32
Worst	Property -19.42	Property -17.42	Japan -1.65	China -2.84	China -9.79	Cash 0.06	Cash 0.00	Emerging Markets -16.03	Cash 0.15	Cash 0.08

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 period 31/08/2007 to 31/08/2017. All asset classes are represented by their equivalent Investment Association (IA) sector. The diversified portfolio is an equal split of the above IA sectors and has been provided to illustrate the benefit, in general terms, of a diversified portfolio of assets. It is not an Old Mutual Wealth portfolio or fund. The information provided is for illustrative purposes only and is not meant to represent the past or future performance of any particular investment or category. It is not possible to invest directly into an IA sector.

IT'S TIME IN THE MARKET THAT COUNTS, **NOT TIMING THE MARKET**

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.

Taking the example of the FTSE All share index as representative of UK equities, the chart below shows the effects of missing the best days of market performance.

Source: FE Analytics. Total return based on an initial investment of £10,000 over the period 31/08/1992 to 31/08/2017.

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 £87,637. This is a return of 776.37% compared to a return of 158.22% for an investor who missed the best 25 days*.

	TOTAL RETURN	
Stayed Invested	776.37%	£87,637
Missed 5 Best Days	502.92%	£60,292
Missed 10 Best Days	374.23%	£47,423
Missed 15 Best Days	281.47%	£38,147
Missed 20 Best Days	211.30%	£31,130
Missed 25 Best Days	158.22%	£25,822

* 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 FTSE All Share index.

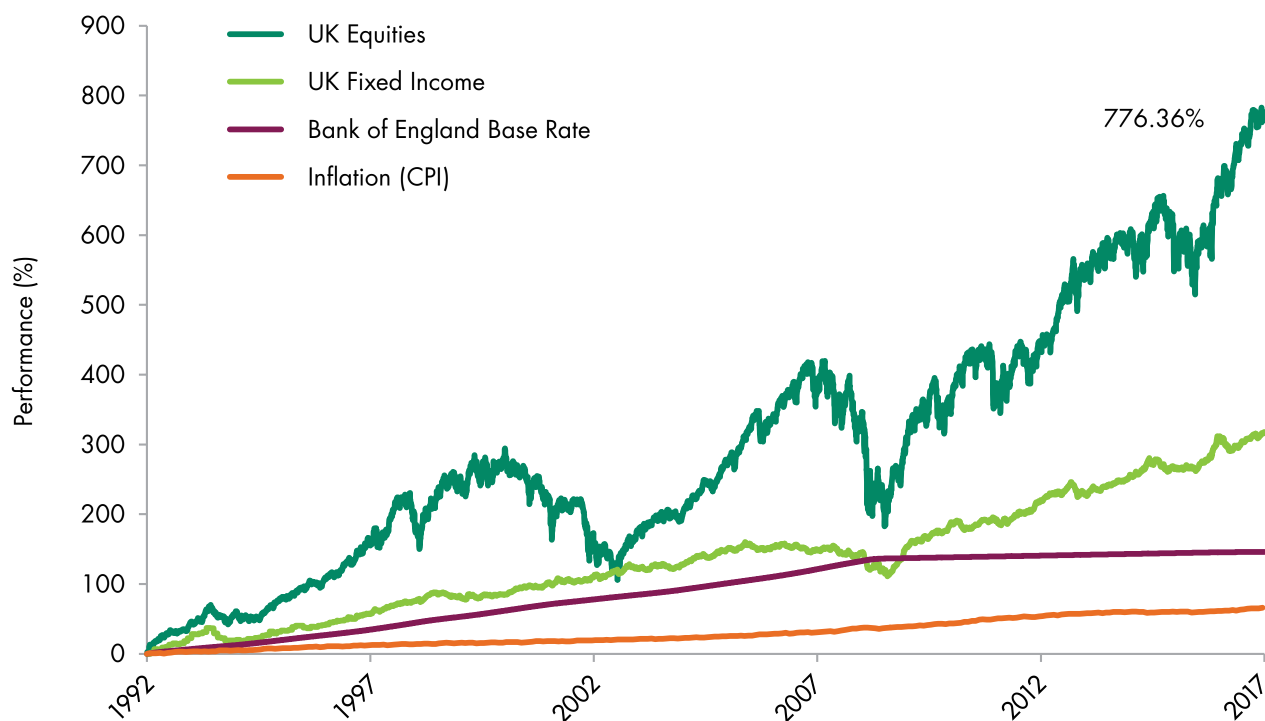
IT'S TIME IN THE MARKET THAT COUNTS, **NOT TIMING THE MARKET**

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. It also shows that historically the Bank of England Base Rate has given higher returns than inflation, but will this continue...



Source: FE Analytics. Total return, percentage growth, over period 31/08/1992 to 31/08/2017.
UK equities is represented by the FTSE All Share Index and UK Fixed Income by the IA UK Corporate Bond sector average.

- INVESTING FOR THE LONG TERM - an investor with £10,000 in August 1992 could have seen their investment grow by nearly 800% when investing in UK 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.

* 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 FTSE All Share or an IA sector.

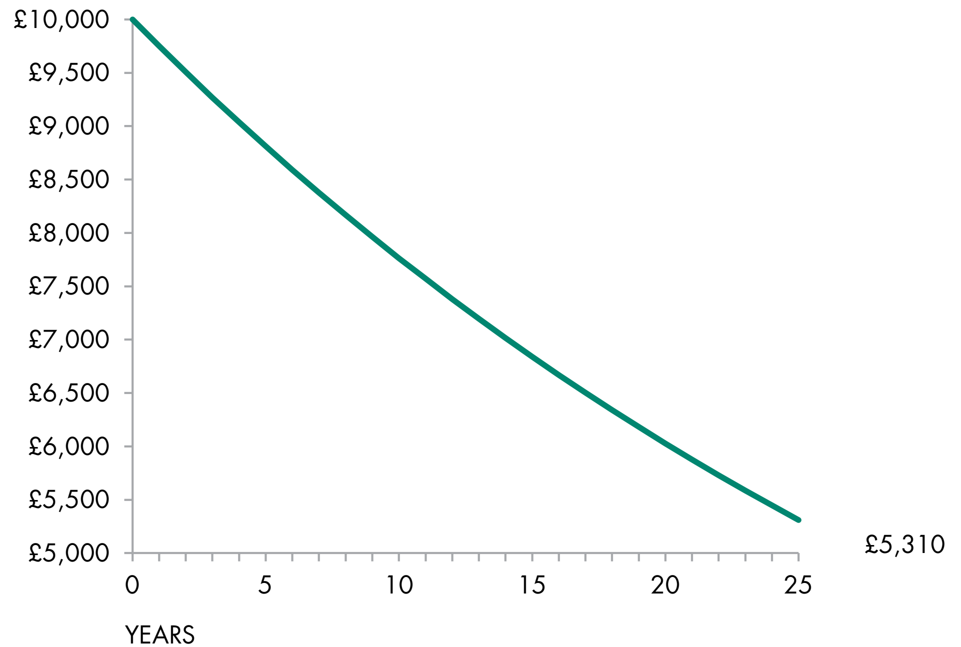
NO RISK, **NO REWARD**

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

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.

Source: Interest Rates, Bank of England Base Rate, Bank of England, and Inflation (CPI), Office for National Statistics over period 01/01/2007 to 01/07/2022. Future projections are from Economic and Fiscal Outlook, OBR, March 2017 and UK Interest Rates Econometric Model, tradingeconomics.com.

BY INVESTING REGULARLY YOU GENERALLY **GET BETTER RESULTS**

UNIT-COST AVERAGING

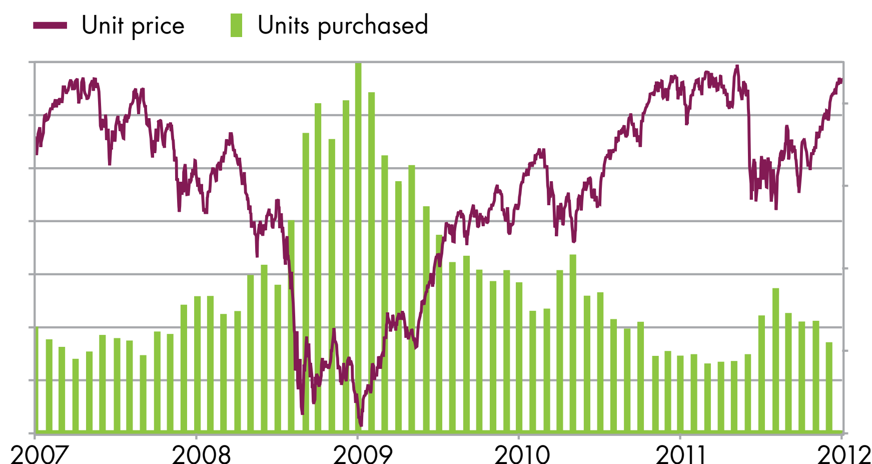
FINANCIAL MARKETS ARE UNPREDICTABLE AND TRYING TO TIME THE MARKET IS ALMOST IMPOSSIBLE.

An alternative approach is to phase an investment into the market. This drip feeds the investment and means you could benefit from the effect of unit-cost averaging.

Unit-cost averaging means that more units are bought when prices are low, and fewer are purchased when prices are high, ensuring you purchase units at an average price throughout the investment period.

The averaging effect means that the risk of paying the highest price is removed.

Taking the example of the the IA UK All Companies sector average as representative of UK equities, the chart below demonstrates how unit-cost averaging could have worked on an investment during the last period of extended market volatility (2007-2012).



THE PROS AND CONS

The chart shows more units were purchased when the price was low, and fewer units were purchased when the price was high. In volatile markets, unit-cost averaging means that you can build an investment portfolio that is likely to benefit when a recovery happens, without the worry of trying to work out when the bottom of the market may occur. However, the potential downside is that you could lose out on the best of the growth in a rising market.

On a £10,000 investment between 2007 and 2012 the benefits of the unit-cost averaging effect are clear. Compared with a single initial investment of £10,000, an investor would have been £1,128 better off when investing monthly due to the effects of unit cost averaging:

Source for both charts: FE Analytics. Total return based on an initial investment of £10,000 over the period 01/03/2007 to 28/02/2012. The information provided is for illustrative purposes only. It is not possible to invest directly into an IA sector.

Past performance is not a guide to the future.

Your investments may fall as well as rise in value and you may not get back what you put in.

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