tavistock ASSET MANAGEMENT

SHOULD I STICK OR TWIST IN A VOLATILE MARKET?

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SHOULD I MOVE TO CASH OR STAY IN FOR THE LONG RUN?

What we know:

It is impossible to predict what the market will do next.
Trying to catch a falling knife can be very costly.

We are dealing with a lot at the minute; an international war, extreme market volatility, an ever-changing government and a mental health crisis. The current economic outlook is causing even the most experienced investors to re-evaluate things.

A question we are often asked is what should I do? Do I sell up now and move to cash? Especially with interest rates on the rise?

Whilst this may provide some form of short-term comfort, anticipating the market's movements or acting on emotion can compromise a portfolio's long-term return potential. We know from our best days blog that not only is it impossible to time the markets but the very best days in financial markets tend to follow the very worst days. As such, moving to cash may save you a couple of percent on the way down but could leave you lagging considerably behind on the way back up, thus making an enormous impact on your overall lifetime investment.

"Very few of us can predict a decline coming," says thought leadership director at T. Rowe Price Roger Young. "Similarly, it's impossible to anticipate the timing of the rebounds that follow, even with a good understanding of economic indicators."

Reducing equity market exposure not only means anticipating when to exit the market but also choosing when to re-enter the market which requires not one but two acts of successful market timing. Either of which are almost impossible.

Whilst it may be extremely challenging to persist with a long-term strategy in volatile times, doing so could place an investor in a position to benefit from potential gains as markets recover.

What can I do to put my mind at ease now and not risk damaging my overall strategy?

An investor concerned about increasing cash at the expense of their equity investment could place any new contributions to a money market account instead of selling their investments in equities. This would allow the investor to re-evaluate their strategy once markets and emotions are in a better place.

Also, remember we are more than 12 years into Bull market territory, and investors portfolios may have increased in terms of equity exposure over that time. As such, they may have greater exposure to equities now than their intended asset allocation/desired level of risk. Conversely, an investor's portfolio may remain in line with their desired exposure to equities, yet the investor may have realised they were not actually comfortable with the level of loss they originally stated.

Maintaining or boosting a bond allocation (and in the current environment, very specific types of bonds) can help buffer against these short-term declines. The key here is to avoid acting out of fear, even if the investor feels equity exposure is currently too high.

Periods of volatility can make an asset mix a moving target, so an investor could set a schedule to re-evaluate an asset allocation based on their specific time horizon and risk tolerance.

Sometimes, our emotions get the better of us, and an investor may panic and move their equity investments to a money market investment. It might have been unnerving to see an account balance slide, or perhaps they remembered what happened to their portfolios during the previous crises.

Emotional responses are understandable, but investors will need to get their strategy back on track at some point. After all, it wasn't those who remained invested in the 2008 downturn that were most impacted (most had recouped their losses before the end of 2009), but the investors who moved out of stocks and never got back in...

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Source of data: Tavistock Asset Management & T.Rowe Price