Appendix

Market Volatility – Covid 19

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The Coronavirus pandemic has caused exceptional volatility to investment markets, affecting all investments to varying degrees. In the investing world this is called a 'Black Swan' event, something you thought was impossible until you see one.

Understandably, alongside very real concerns about issues such as health, income, mobility and social distancing, investors are naturally concerned about the value of their investments.

This document outlines Plan Money's views and our recommended strategy for most investors.

***"We don't leave our car in the middle of a blizzard.
We wait until it passes. Be patient"***

The futility of timing the stock market

The natural question is whether one should adopt a defensive strategy by transferring into less volitile holdings, or disinvest all together and wait until confidence returns to the markets.

We are firm believers in the well-used investment phrase: **time in the market, not timing the market**. Very few people, professional or otherwise, have the proven ability to make consistently accurate big market-timing calls and even when they do get some calls correct, one bad call can undermine all the good ones. As such, timing mistakes have a significantly detrimental effect over the long term.

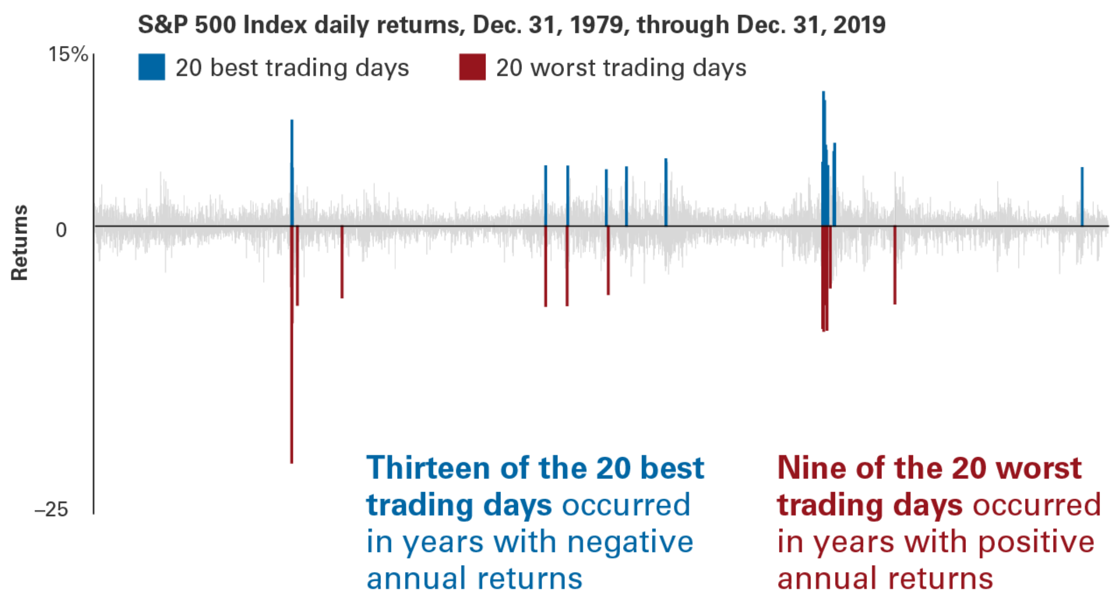
"The only value of stock forecasters is to make fortune-tellers look good."

Warren Buffet, CEO of Berkshire Hathaway.

Furthermore, the biggest rises in investment markets frequently come immediately off the back of the falls.

From 2000 to 2019, the Standard & Poor's 500 Index had a compound annual return of 6.1%. But if the ten best days during that period were excluded, the index would have had just a 2.4% compound annual return. Excluding the 25 best days, it would have had a *-1.0%* compound annual return. Staying invested in the market is key, because after a downturn you might not have to wait long to see one of those "good" market days. The best and worst days tend to cluster together —a major reason why successful market timing is largely a myth.

Source: Vanguard calculations, based on data from Thomson Reuters Datastream.



Source: Vanguard

"Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves."

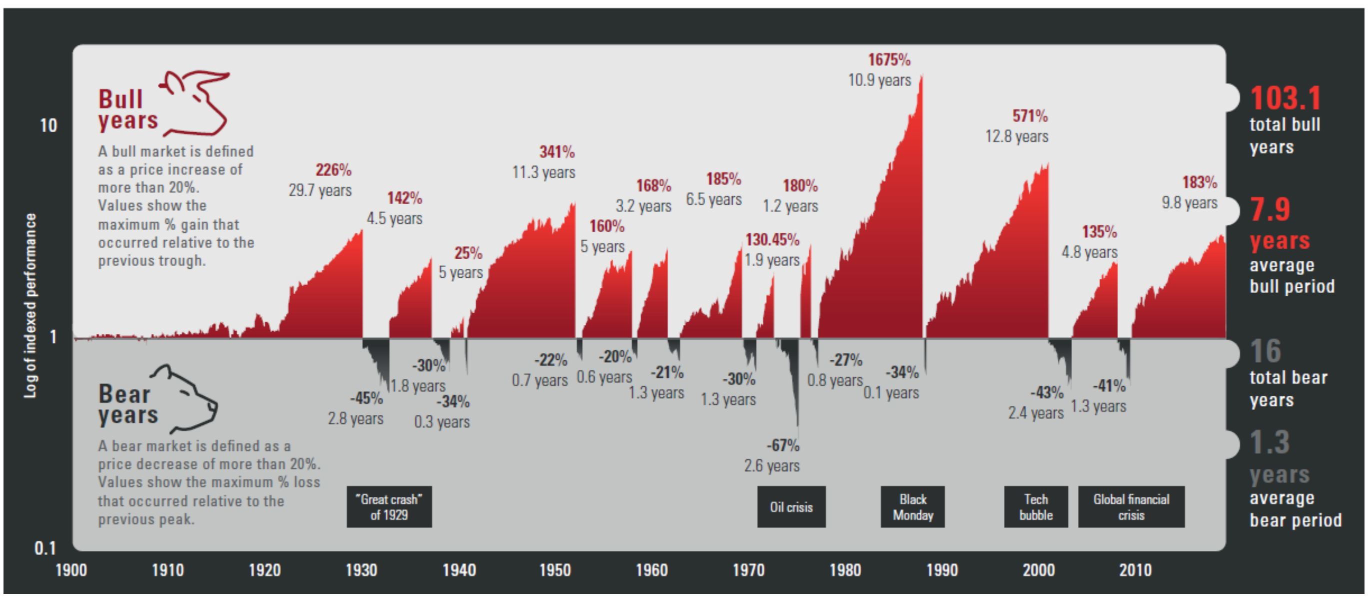
Peter Lynch investor, mutual fund manager, and philanthropist

Volitility is unavoidable

Why do we invest? To create financial security, to strive for financial independence, to protect capital values from the eroding effects of inflation. We invest because we know that money in the bank will not generate meaningful returns and when we factor-in inflation, money on deposit is actually losing value in real terms.

An investment is not rainy-day money, that is the job of money in the bank. Maintaining sufficient capital reserves is essential though. Money in the bank or in the likes of Premium Bonds is boring and is "doing nothing" but is needed at times like this; when the timing of needing to access capital for essential expenditure is not good.

Bull and Bear Markets



Source: Vanguard

When the stock market rises you don't 'win' money, just like when it declines you don't 'lose' money. You only lose money when you commit the worst financial action an investor can make, selling a portfolio in a declining market.

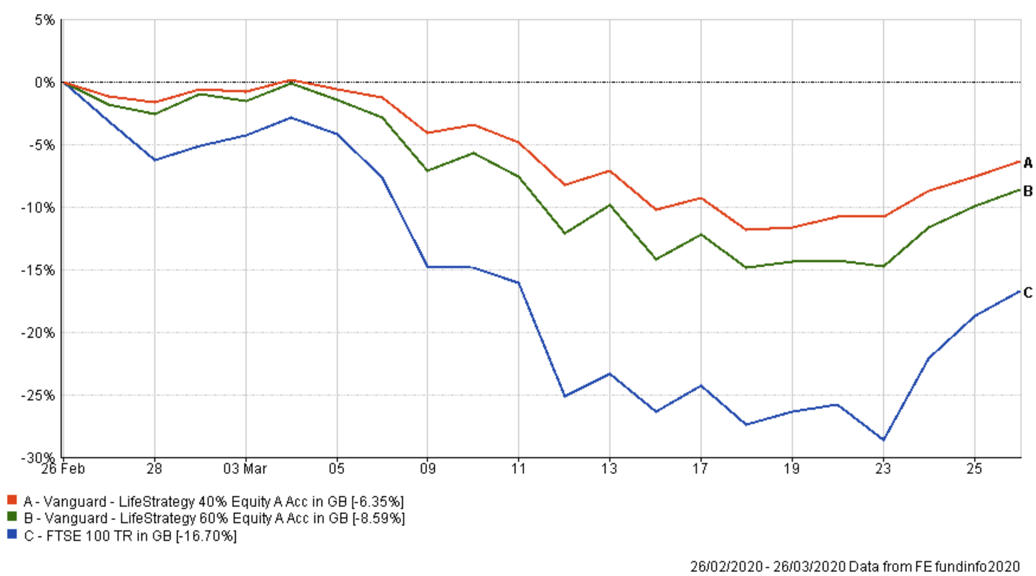
Investments don't come with guarantees and we need to accept a degree of volatility. For this reason investments need to be viewed over the long term, so peaks and troughs iron themselves out.

Beware news headlines

When the news reports of "market behaviour" it is typically referring to a major index, such as the FTSE100. Remember that this is a 100% equity index and most investor's portfolios are not structured this way, they are diversified across fixed interest too, to reflect their risk profile and timescales.

The tale below shows the FTSE100 (blue line) over **one year** to 26/03/2020 against a fund weighted 60% equity / 40% fixed interest (green line). As you can see, the recent fall in value is not as severe as the FTSE100 index.

To further illustrate this point, the tale below shows the FTSE100 (blue line) over **one month** to 26/03/2020 against a fund weighted 60% equity / 40% fixed interest (green line) and a fund weighted 40% equity / 60% fixed interest (orange line).



What should you do?

We believe, as we always have, that of primary importance is the need to focus on the fundamentals:

Global diversification of assets within the investment; not ‘making bets’ on one particular region or sector over another.

An appropriate equity weighting to reflect your **established risk profile**. This will have been formed by asking a set of objective questions to establish your tolerances and sentiment.

Low cost of investing; not being drawn to unnecessarily expensive funds boasting ‘star fund managers’ or incurring unnecessarily expensive investment structures and management methodology.

Maintain **tax efficient** planning such as utilising ISA allowances. Even if you do not want to invest capital because you may need it, you could transfer savings into a Cash ISA (thus utilising the current tax-years allowance) and then transfer to an Investment ISA at a later date.

Stay the course and block out the noise.

"The stock market is a device for transferring money from the impatient to the patient."

Warren Buffet, CEO of Berkshire Hathaway.

If possible, it would be prudent to **reduce income withdrawals** from investments and live off capital reserves for a while as this will aid recovery. Of course this may not be possible.

Maintain or **increase regular investment contributions** if at all possible. During times of market volatility you are buying cheaper units.

You may like to **re-visit your overall risk profile**. This would initially entail completing a new risk profile questionnaire which would sense-check your general investment sentiments, followed by a discussion with your adviser. You would mutually agree whether your aspirations and tolerances have changed. Should you have fairly short investment timescales, such as retirement within a couple of years or needing capital from your investment within a few years then we would recommend a more detailed discussion with your adviser.

Please remember that we are here to help at any time, whether that be discussing concerns, providing guidance or just to chat if you are seeking reassurance about any aspect of financial planning.

Additional reading

Appendix – Market Timing
Available on request

Don't panic - really
https://weareverve.co.uk/dont-panic-really/

What history tells us about bear markets
https://www.vanguardinvestor.co.uk/articles/latest-thoughts/markets-economy/what-history-tells-about-bear-markets