SKYBOUND
WEALTH MANAGEMENT

Investing In Volatile Markets

Is Now Really The Best Time To Invest?

If you are able to look beyond the sensationalist headlines of newspapers and tv stations, investing during periods of volatility can present many opportunities.

Only recently, Markets around the world dropped as the COVID-19 pandemic sent shockwaves around the world, and for many the big panic sell began. This was quickly followed by the FTSE 100 recording its second biggest percentage rise of all time. And those who had sold shares just days earlier missed out.

After months of threats and 'will they, won't they?', Russia has invaded Ukraine. Most will agree this is a troubling scenario that could potentially lead to a larger conflict if other nations become involved.

As such, many investors will no doubt be left wondering what impact this could have on their portfolios, and whether they should be doing anything about it.

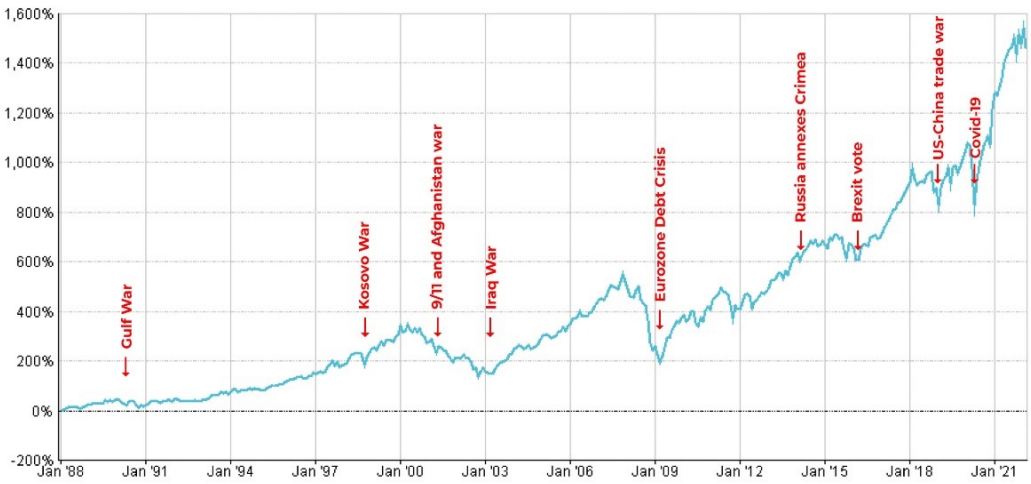
Will The Invasion Affect Markets?

It's almost impossible to really know what impact the Russia-Ukraine conflict will have on markets, given no-one knows how events will unfold. It is likely, however, that an event that has attracted so much media attention as this could cause some short-term wobbles. Over the space of days, weeks and months, markets can be affected by sentiment. If investors turn nervous, as they may become with recent events, we could see falls.

The same thing happened after the start of other front-page events, such as the 9/11 attacks, Afghanistan and Iraq wars, Eurozone debt crisis, Brexit, ex-US president Trump's trade war with China and more recently Covid.

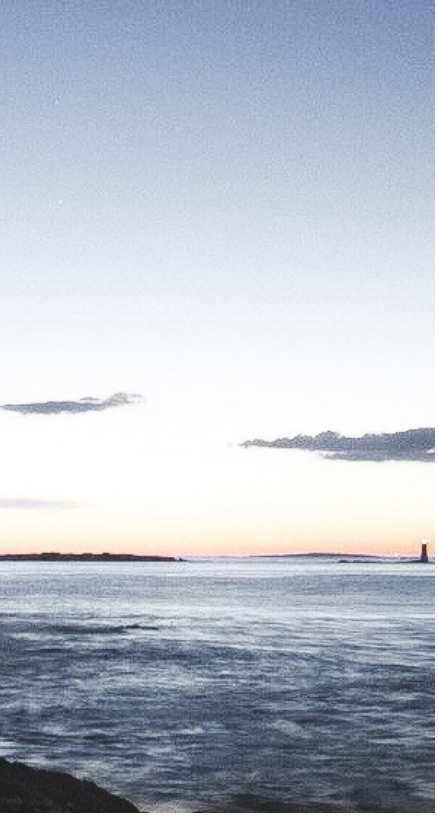
As time goes by, however, the impact of these events tends to be diluted by long-term performance. It doesn't matter how severe they may have appeared at the time, given long enough their impact on markets almost always fades away into insignificance.

Global Stock Market Performance



Past performance is not a guide to future returns. Source: FE Analytics in USD terms to 31 January 2020

We're not downplaying the potential seriousness of the events in Ukraine, but from an investing point-of-view the potential impact on markets is certainly not unprecedented. There have always been flash-point scenarios with the potential to rock markets, and there likely always will be. Rarely do they have a lasting impact on long-term investors though.



Does The Conflict Warrant Portfolio Changes?

Some investors may be tempted to tinker with their investments in response to the Russia-Ukraine conflict. We think that would be a mistake. Given the unpredictable nature of the event, any changes made could end up doing more harm than good to your returns, if things don't pan out as expected.

You could of course correctly guess the outcome, but then get the market reaction wrong. Don't forget market fluctuations are not just driven by geopolitics – they're affected by an almost infinite number of factors. So even if the situation in Ukraine does deteriorate, there's no guarantee that the markets will suffer the same fate.

Some investors have also mistakenly pinned the blame for market falls since the end of 2021 on the Ukraine conflict, given the build-up of Russian troops on the Ukrainian border began at around the same time. The recent falls are in fact likely largely due to expected interest rate hikes across many parts of the world in response to rising inflation.

While we also don't think short-term market falls justify changes to a long-term investment plan (more on that in just a moment), we certainly don't think portfolios should be changed in response to something as unpredictable and potentially irrelevant to long-term returns as the current Ukraine invasion.

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The Golden Rule Of Investing?

Buy Low, Sell High

Sounds simple doesn't it. All you need to do is buy units when prices are low and sell them when prices are high. However, markets are far from predictable and can move quickly and erratically in either direction. Throw in to the mix the fact that many investors are controlled by emotions and it's perhaps not so easy after all.

The Beauty Of Dollar Cost Averaging

Although it sounds quite complicated, dollar cost averaging is the term used to describe a simple investing technique.

In simple terms, it's a theory which means using regular saving to help smooth out stock market investment volatility. The key point about dollar cost averaging is to invest on a regular basis. In a fluctuating market, cost averaging can allow you to benefit from buying more investment units when prices are lower.

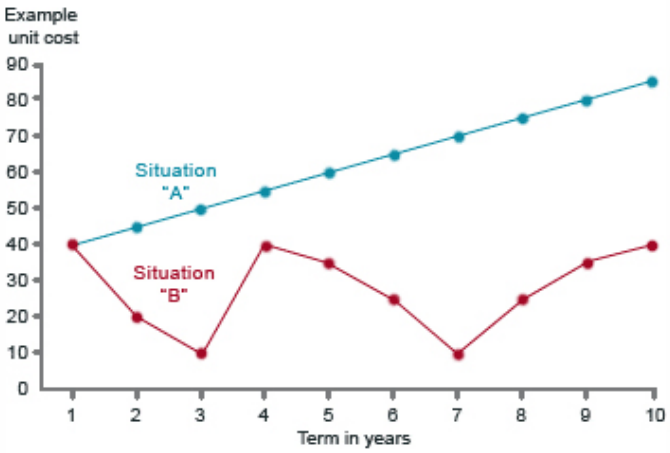
Removing The Guesswork

Deciding when to invest in a volatile market can be off-putting to both the new and seasoned investor. Rather than standing on the edge, trying to second guess what happens next, a regular savings plan could be the answer. By investing a consistent amount at regular intervals, you can gradually 'drip-feed' into the market regardless of the price on any given day. This allows you to take advantage of price movements, as you will buy more units when prices are lower and less when they become more expensive.

Saving in a volatile market

The graph below shows the advantages of saving a regular fixed sum in a volatile market over the short to medium term. This comparison shows the value of two unit holdings over a 10 year investment term.

At first glance, Situation 'A' appears to provide better fund performance over Situation 'B'. However on closer inspection the benefits of unit price fluctuation become clear.



Under normal market conditions the stock market will always deliver fluctuating returns. As the market weakens, the investor is able to purchase more units for the same 1,000 premium contribution. These additional units thereafter accrue in value as the market swings upwards, much to the benefit of the portfolio.

The example demonstrates the advantages of saving in a fluctuating market in a 10 year savings plan; the investment return is greater for Situation 'B' despite the unit price being lower at the end of the investment term than that of Situation 'A'.

Situation 'A' a steadily rising market			
Year	Price	Investment	Units Bought
1	40	1,000	2,500.00
2	45	1,000	2,222.22
3	50	1,000	2,000.00
4	55	1,000	1,818.18
5	60	1,000	1,666.66
6	65	1,000	1,538.16
7	70	1,000	1,428.57
8	75	1,000	1,333.33
9	80	1,000	1,250.00
10	85	1,000	1,176.47
TOTALS		10,000	16,933.89
Value of units (16,933.89 x 85) = 14.393.80			

Situation 'B' a volatile market			
Year	Price	Investment	Units Bought
1	40	1,000	2,500.00
2	20	1,000	5,000.00
3	10	1,000	10,000.00
4	20	1,000	5,000.00
5	35	1,000	2,857.14
6	25	1,000	4,000.00
7	10	1,000	10,000.00
8	25	1,000	4,000.00
9	35	1,000	2,857.14
10	40	1,000	2,500.00
TOTALS		10,000	48,714.28
Value of units (48,714.28 x 40) = 19,485.71			

MARKET SHOCK	BEAR MARKET DURATION & PEAK-TO-TROUGH-FALL	STRENGTH & DURATION OF SUBSEQUENT RALLY
1973: Oil crisis	21 months, -48%	74 months, 126%
1981-2: US inflation crisis	20 months, -27%	60 months, 229%
1987: Black Monday	3 months, -34%	147 months, 582%
2000-2: Dot.com bust	30 months, -49%	60 months, 101%
2008: Debt crisis	17 months, -57%	129 months, 378%

The table left also illustrates the growth experienced after a crisis historically and why it could be **'a valuable time to make your cash work for you.'**

The Sooner You Start The Better

As the market weakens, investors with surplus cash are able to use this an opportunity to purchase funds and stocks at a huge discount. Then as the market swings upwards, these discounted stocks will increase in value, much to the benefit of the portfolio.

When formulating your offshore savings plan we will take the time to understand your attitude to risk, the level of input you wish to have in managing your investments and the specific objectives that you're trying to reach. We will then make various recommendations, tailor-made to meet your personal requirements.

Research shows that taking regular advice from a professional financial planner can result in a 53% increase in retirement income compared to those who sought no financial advice. However, we know how dangerous generic advice is so we recommend you contact your local Skybound Wealth Management Group planner today.

How Can We Help You?

At Skybound Wealth Management we help clients arrange their affairs to best position themselves for their future, and support them along the way. We are here for you up to and throughout your retirement. We will talk you through the potential benefits of a number of financial planning strategies such as:

Investing in tax beneficial jurisdictions - we can help you to choose the most favourable countries for your investments. By this we mean we will help ensure that your tax liability is reduced, therefore allowing you to keep more of your money.

Investment choices and flexibility - there are many different investment options open to you, and our trained advisors will listen carefully to your financial goals. Once we understand what you want to achieve we will look at a savings plan to help you realise these goals. We will look at flexible products that have potential to give you the best return on your investment

A little relief - without professional advice, you could be missing out on vital tax reliefs that could save you money. Our advisors will assess your circumstances and help you to take advantage of any tax breaks available to you.

SKYBOUND
WEALTH MANAGEMENT

Helping To Secure Your Future.

Wherever You Are Today.

We exist to educate and guide you through the important decisions required today, to ensure you benefit from the freedom of tomorrow.

A Little Planning Goes A Long Way

Get in touch today to find out how you can use your expat status to protect and grow your wealth in the most tax efficient way possible.