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FACTSHEET

Choppy waters, not full-on gale

Wait for the bad weather to pass and stay the course

Volatility fluctuates based on where we are in the economic cycle, but it is a normal feature of markets that investors should expect. When stock markets start correcting, daily injections of bad news may sound as though it will never end. This can spark anxiety, fuel uncertainty and trigger radical decisions in even the most seasoned investors.

From the unfathomable Brexit playbook and the continued prominence of populist ideology, to unconventional US foreign policy and the retirement of Draghi, the highly respected European Central Bank president, uncertainty prevails. But it's essential not to panic and to keep perspective when markets are turbulent.

Whether it's rough seas or a volatile stock market, the same rules apply. When storms rock the boat, don't jump ship. Wait for the bad weather to pass and stay the course.

Here are some strategies to consider when volatility strikes.

KEEP CALM – SHORT-TERM VOLATILITY IS PART AND PARCEL OF THE INVESTMENT JOURNEY

Markets can fluctuate depending on the news flow or expectations on valuations and corporate earnings. It is important to remember that volatility is to be expected from time to time in financial markets.

Short-term volatility can occur at any time. Historically, significant recoveries occur following major setbacks, including economic downturns and geopolitical events.

While headline-grabbing news can affect short-term market sentiment and lead to reductions in asset valuations, share prices should ultimately be driven by fundamentals over the long run. Therefore, investors should avoid panic-selling during volatile periods so that they don't miss out on any potential market recovery.

REMAIN INVESTED – LONG-TERM INVESTING INCREASES THE CHANCE OF POSITIVE RETURNS

When markets get rocky, it is tempting to exit the market to avoid further losses. However, those who focus on short-term market volatility may end up buying high and selling low. History has shown that financial markets go up in the long run despite short-term fluctuations.

Though markets do not always follow the same recovery paths, periods after corrections are often critical times to be exposed to the markets. Staying invested for longer periods tends to offer higher return potential.

STAY DIVERSIFIED – DIVERSIFICATION CAN HELP ACHIEVE A SMOOTHER RIDE

Diversification basically means 'don't put all your eggs in one basket'. Different asset classes often perform differently under various market conditions.

By combining assets with different characteristics, the risks and performance of different investments are combined, thus lowering overall portfolio risk. That means a lower return in one type of asset may be compensated by a gain in another.

STAY ALERT – MARKET DOWNTURNS MAY CREATE OPPORTUNITIES

Don't be passive in the face of market declines. When market sentiment is low, valuations tend to be driven down, which provides investment opportunities. In rising markets, people tend to invest as they chase returns, while in declining markets people tend to sell. When investors overreact to market conditions, they may miss out on some of the best-performing days.

Although no one can predict market movements, the times when everyone is overwhelmingly negative often turn out to be the best times to invest.

INVEST REGULARLY – DESPITE VOLATILITY

Investing regularly means continuous investment regardless of what is happening in the markets.

When investors make fixed regular investments, they buy more units when prices are low and fewer when prices are high. This will smooth out the investment journey and average out the price at which units are bought. It thus reduces the risk of investing a lump sum at the wrong time, particularly amid market volatility.

The longer the time frame for investment, the better, because it allows more time for investments to grow, known as the 'compounding effect'. ■

ORGANISING YOUR WEALTH TO SUPPORT YOUR NEEDS AND GOALS

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