

Stockmarket Investment

When Doing Nothing is Best

Should stockmarket uncertainty affect your investment strategy?

During times of stockmarket uncertainty, it's only natural to be concerned about how this affects the value of your investments. Investors often ask what action they should take in response.

Many experts agree that investors will usually be better off resisting the temptation to make changes to their long-term investments simply because of short-term stockmarket movements. If your personal circumstances and investment goals are unaltered, and you are still able to take a medium to long term view, then it is probably appropriate to 'sit tight' through any periods of uncertainty.

If you have any questions about what strategy may be right for you, we strongly recommend that you discuss your options with your Financial Adviser.

Why market timing doesn't work

Few investors would dispute the fact that, over the longer term, stockmarket investments have significantly outperformed the returns available from bank and building society deposit accounts. Investors also know that stockmarkets are prone to short-term fluctuations and sometimes these can appear to be quite sharp.

It can be tempting during times of stockmarket uncertainty to delay making new investments or even consider selling existing investments and try investing again when values are lower – this strategy is known as 'Market Timing'.

Whilst 'market timing' sounds fine in theory, it seldom works in practice.

Market Timing – It's too easy to miss the gains

Just as the sharp falls in stockmarkets tend to be concentrated in short periods of time, the best gains are similarly concentrated. Because these gains often occur just before, or after, a market fall – an investor who tries to time investments is highly likely to miss the best gains.

Fidelity has analysed the returns from the UK, US and other stockmarkets over the period 1992 – 2007. This shows that missing just a few days' stockmarket performance can significantly impact performance.

Average Annualised Returns over 15 years – effect of missing best days

MARKET	INDEX	STAYED FULLY INVESTED	BEST 10 DAYS MISSED	BEST 20 DAYS MISSED	BEST 30 DAYS MISSED	BEST 40 DAYS MISSED
UK	FTSE All-Share	10.9%	7.9%	5.6%	3.7%	2.0%
USA	S&P 500	10.7%	7.2%	4.6%	2.3%	0.4%
Germany	DAX 30	10.9%	6.1%	2.5%	-0.4%	-2.9%
France	CAC 40	11.2%	6.8%	3.7%	1.0%	-1.4%
Hong Kong	Hang Seng	13.4%	6.8%	2.9%	-0.4%	-3.2%

All figures show annualised, total returns, taken from 15 year periods, starting each consecutive month, from 31.7.92 to 31.7.07, in local currency terms. Source: Fidelity as at 31.7.07. Basis: bid-bid with net income reinvested. These returns do not take into account initial fees.

Missing the best 10 days has reduced annualised returns from the US and UK stockmarkets by around a third, and even more in other markets. Missing the best 40 days has seen UK and US market returns cut by around 90%, with even greater lost returns in the other markets. Far from minimising investment risk, market timing is in fact a high risk strategy. Naturally if you were able to miss the worst days of the stock market you would see a higher return than staying invested. However this would be more a case of luck than strategy as stock market falls are notoriously difficult to predict.

Remember time, NOT timing, is the key to investing.

Please note that past performance is not a reliable indicator of future results, and you should be aware that the value of an investment can fall as well as rise.

