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A guide to investing in volatile markets

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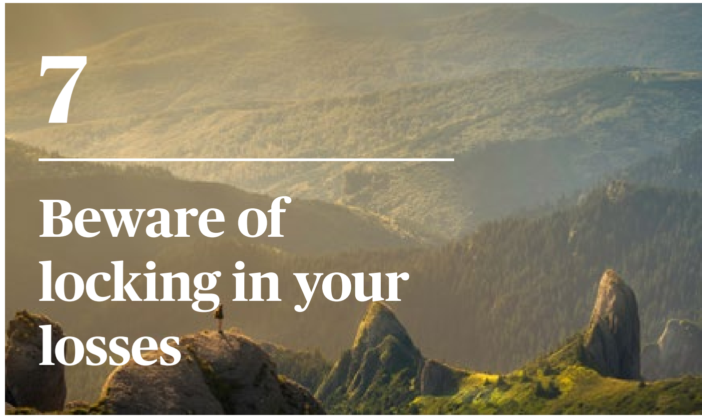
Welcome to our guide on investing in volatile markets. The term volatility refers to periods of short-term rises and falls in the price of investments. These movements in price can be caused by a variety of political and economic factors, such as a change in government policy or news that impacts a specific industry causing uncertainty.

While it is natural to be concerned when you see sharp fluctuations in the value of your investments, it's important to remember that volatility is a normal part of investing and all long-term investors will experience it to some degree from time to time.

From the importance of diversifying your portfolio to a five-point investment checklist, this guide will give you information on all the things you might need to consider when investing through periods of volatility in the markets.

It's important to remember everyone's situation is different, so speaking to a financial adviser before making any decisions is a good first step if you are in any doubt about what investment to make. They may be able to tailor an appropriate long-term investment plan to meet your specific needs and advise you on an appropriate course of action.

Remi Lambert
Chief Investment Officer



Diversification can smooth the bumpy road

From year to year, it is difficult to predict which asset classes will be the best performers. Most investment specialists agree about the benefits of spreading your money across different investments. This diversification can reduce volatility, smooth out highs and lows in returns and help avoid unnecessary risk.

Selecting the right mix

One of the major aims of diversification is to construct a portfolio of investments that don't all behave in exactly the same way. So while one part of your investment portfolio could be falling in value, the others may be flat or rising to balance it out. This difference in potential returns could reduce investment volatility. Selecting the right mix can help to even out the damage inflicted by downturns, recessions or just routine fluctuations in specific markets.

Market bumps are normal

Markets are unpredictable and it will always be difficult to foresee what will happen in the future. It may be wise not to take a short-term outlook, and avoid overreacting to immediate stock market moves. Taking a multi-asset approach could reduce investment volatility. A well-constructed investment portfolio, designed around your timeframe and keeping your portfolio diversified could be a prudent way to weather market uncertainty.

Asset allocation is king

Asset allocation refers to the decision of how much capital to invest and where; for example in stocks vs. bonds, in US vs. European stocks, how much to keep in cash and everything in between. Having the right balance - the optimal asset allocation - is what keeps you diversified in the market. Diversifying your investment portfolio across a range of asset classes, geographies and fund managers could help to reduce your overall risk.

Risky versus safe assets

If you need to protect yourself from the possibility of a short-term decline in the value of your portfolio, you are likely to follow the conventional wisdom of putting some of your capital into bonds rather than stocks. Over time this might well cost you money. Over the long run, stocks consistently outperform bonds (as can be seen on page 5). However, investing some of your money in bonds is likely to reduce the short-term ups and downs of your investment portfolio, which may allow you to sleep better at night.

Past performance does not predict future returns.

The importance of diversification

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Best	9.57	14.27	41.72	1.91	30.88	25.02	35.31	16.16	26.49	26.08
	2.18	11.81	37.75	-1.12	24.35	24.22	27.09	6.45	20.32	24.58
	1.14	11.60	25.51	-3.32	23.77	20.73	26.45	-0.82	19.89	13.74
	0.73	10.89	23.99	-3.57	19.61	18.69	16.30	-12.71	16.31	11.96
	0.69	8.68	23.19	-4.05	19.42	14.48	11.64	-13.65	14.04	9.19
	-2.72	7.14	21.19	-4.06	18.90	13.42	7.04	-15.06	13.34	8.31
	-2.84	6.49	14.52	-4.38	18.36	12.82	1.71	-16.65	12.23	8.05
	-3.56	5.44	13.07	-5.04	18.17	12.34	0.99	-16.72	10.29	5.40
	-8.96	5.18	10.94	-11.28	12.56	10.37	-2.22	-18.05	10.27	2.89
	-9.17	4.27	10.44	-11.50	11.51	7.03	-2.89	-19.67	9.61	2.28
	-9.56	2.38	9.09	-12.88	9.64	5.38	-4.56	-19.74	8.96	1.79
	-11.78	2.07	6.85	-14.25	7.71	1.36	-4.72	-19.85	5.98	1.11
	-14.60	-0.40	2.11	-14.37	2.32	-3.11	-9.54	-24.00	3.35	-1.88
Worst	-24.70	-0.93	1.75	-14.86	2.29	-9.17	-9.67	-25.05	-7.98	-4.82

Legend

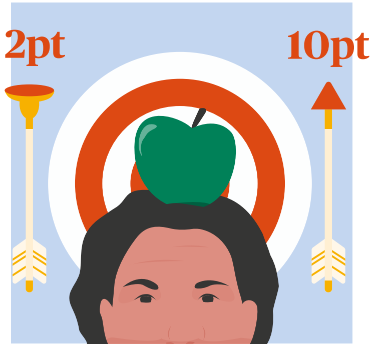
- US Equity
- 60:40 Equity Bond Portfolio
- Global Property
- European Equity
- Gold
- Japanese Equity
- Global High Yield Bonds
- Asia ex Japan Equity
- Emerging Market Equity
- Global Corporate Bonds
- US CPI (inflation)
- Emerging Market Debt
- Global Government Bonds
- Commodities

The chart on the left shows why it is so important to make sure your investments are diversified. As you can see, over time no single asset class or region is a consistent top performer. Spreading your investments across a range of asset classes and regions could help smooth the impact of ups and downs in the market. One investment may perform badly in any particular year but this negative performance could be offset by the positive performance of another investment.

Source: Morningstar, data 1 January to 31 December. US dollars.
Shares invested in another currency may be exposed to exchange rate risk.
Past performance does not predict future returns.

Keep invested for the long term

It rarely makes sense to base your investment decisions on what has happened over a few days, rather than over longer time periods.



Choose the right level of risk

Selecting the right level of risk for you is essential. Too much risk for your circumstances could lead to sleepless nights and you could lose money you cannot afford to. Too little risk and you might not achieve your long-term goals. If you are investing and have a long time horizon, you are likely to make more money by carefully investing in a mix of assets like stocks and bonds, rather than restricting your investments to interest on savings.

Invest for the long term

How much you allocate to higher risk assets like stocks versus lower risk assets like bonds will depend on factors such as your investment objectives and your ability to tolerate risk. Long-term investors are usually comfortable investing a higher percentage of their money in stocks because the risks may provide greater rewards in the long term.

Markets go up and down

There's no escaping volatility when investing: markets go up and down. But if you're still worried, you should lower your expectations for future returns by buying safer - but lower-growth - options. The history of asset class returns shows that in developed markets stocks typically outperform their government bond counterparts over the long term but they do experience frequent large drops in value.

The benefits of compounding

Time is your greatest friend as an investor. Compounding simply refers to the benefit you get by reinvesting any returns you receive on your investment rather than taking any profit. For compounding to work its magic requires the reinvestment of investment returns and time. A bigger pot of money each year means the interest or returns you can potentially receive is greater.

Three investing tips for the long term:

1

Volatility is inherent in investing. If you're investing for the long term, daily movements in the market shouldn't be your main concern.

2

Choosing the right level of risk for your long-term goals is essential.

3

When you make investments over a long period of time, the benefit of compounding potentially helps to grow your investment.

> "Compound interest is the eighth wonder of the world. He who understands it, earns it. He who doesn't, pays it.

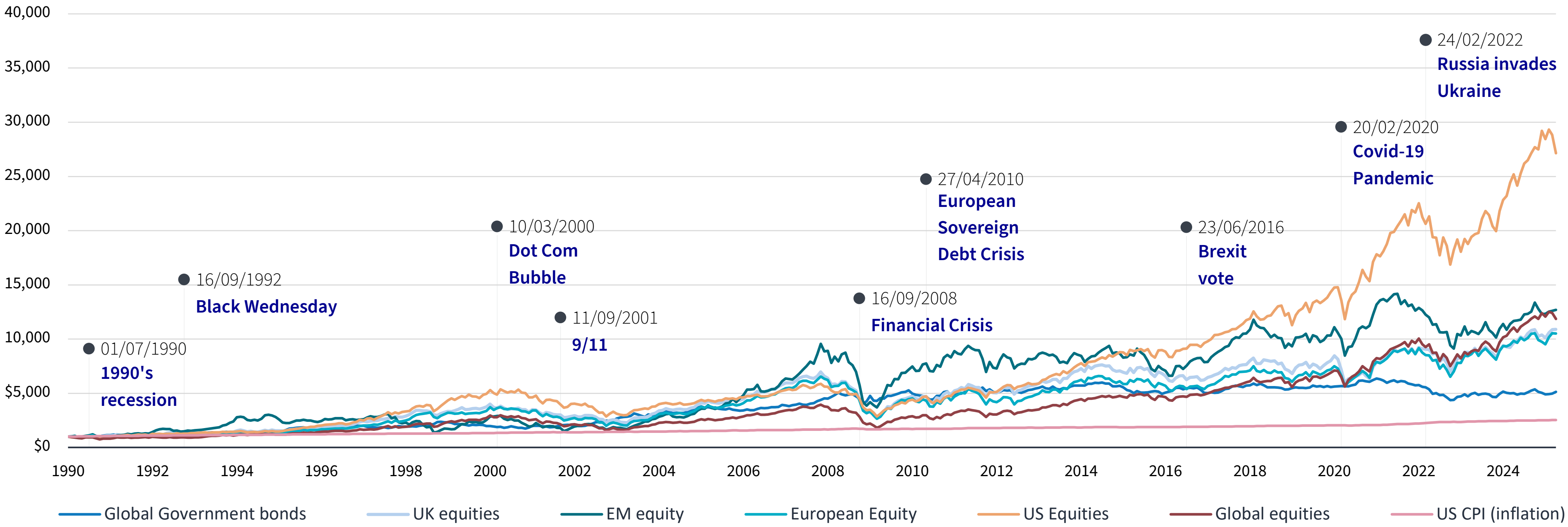
Believed to have been said by

Albert Einstein

The history of long-term investing

Over the years there have been many events that have had large impacts on financial markets, from black Wednesday in 1992 to the more recent financial crisis in 2008. However, as can be seen from the chart below, the long-term trend for market performance has continued to remain positive.

If you are investing for the long term, while you will experience market dips and volatility from time to time, history has shown us that these events won't stop the long-term positive performance of markets. It's important to remember there are no guarantees though, and past performance is not a reliable guide to future performance.



Source: Morningstar, data 31 December 1989 to 31 March 2025. US dollars. Rebased to 1000. **Past performance does not predict future returns.**

Market performance

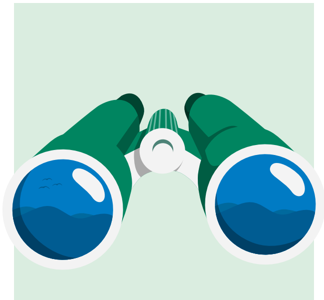
Discrete performance (%)

Sectors /Market indices	01/01/2025 - 31/03/2025	01/04/2024 - 31/03/2025	01/04/2023 - 31/03/2024	01/04/2022 - 31/03/2023	01/04/2021 - 31/03/2022	01/04/2020 - 31/03/2021
US equity	-4.60	7.75	29.67	-8.93	13.64	58.55
Emerging market equity	3.01	8.65	8.59	-10.30	-11.08	58.92
Global equity	-1.79	7.04	25.11	-7.02	10.12	54.03
European equity	10.48	6.87	14.11	1.38	3.51	44.95
UK equity	7.71	12.86	10.78	-3.35	7.87	40.99
Global government bonds	4.62	2.26	1.43	-7.85	-10.00	5.83
US CPI (inflation)	1.33	2.39	3.48	4.98	8.54	2.62

Source: Morningstar, US dollars.
Past performance does not predict future returns.

Beware of locking in your losses

Many investors can feel overwhelmed when markets have large swings. Particularly during downturns, it's natural to think about selling your investment portfolio to avoid further losses - also known as crystallising your losses. However, reacting emotionally to sudden changes in the market can often have adverse effects: investors could be locking in permanent losses when there is the potential for markets to bounce back.

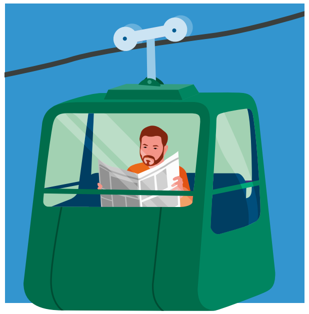


Volatility is normal

Stock markets move up and down frequently, as the price of the individual stocks that make up a stock market increases and decreases with demand and supply. These movements can be daunting, but it might be reassuring to remember that in a lot of cases this volatility in markets is normal.

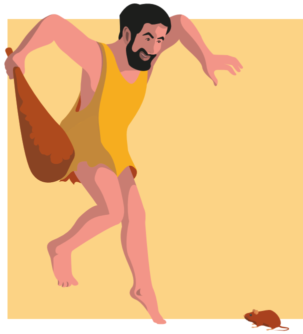
What influences market changes

There are many factors that influence price changes such as company updates, regulation changes, or even consumer sentiment. And these can be positive or negative. When multiple companies move in the same direction, the stock market as a whole can experience an upward or downward shift.



Investing for the long term

Although stock markets move up and down daily or over the course of a year, or several years, they have historically trended upwards over longer periods of time. For investors who have a long-term investment horizon, selling your investments on a short-term view, regardless of price, can result in losing out if the market bounces back.



Behavioural biases

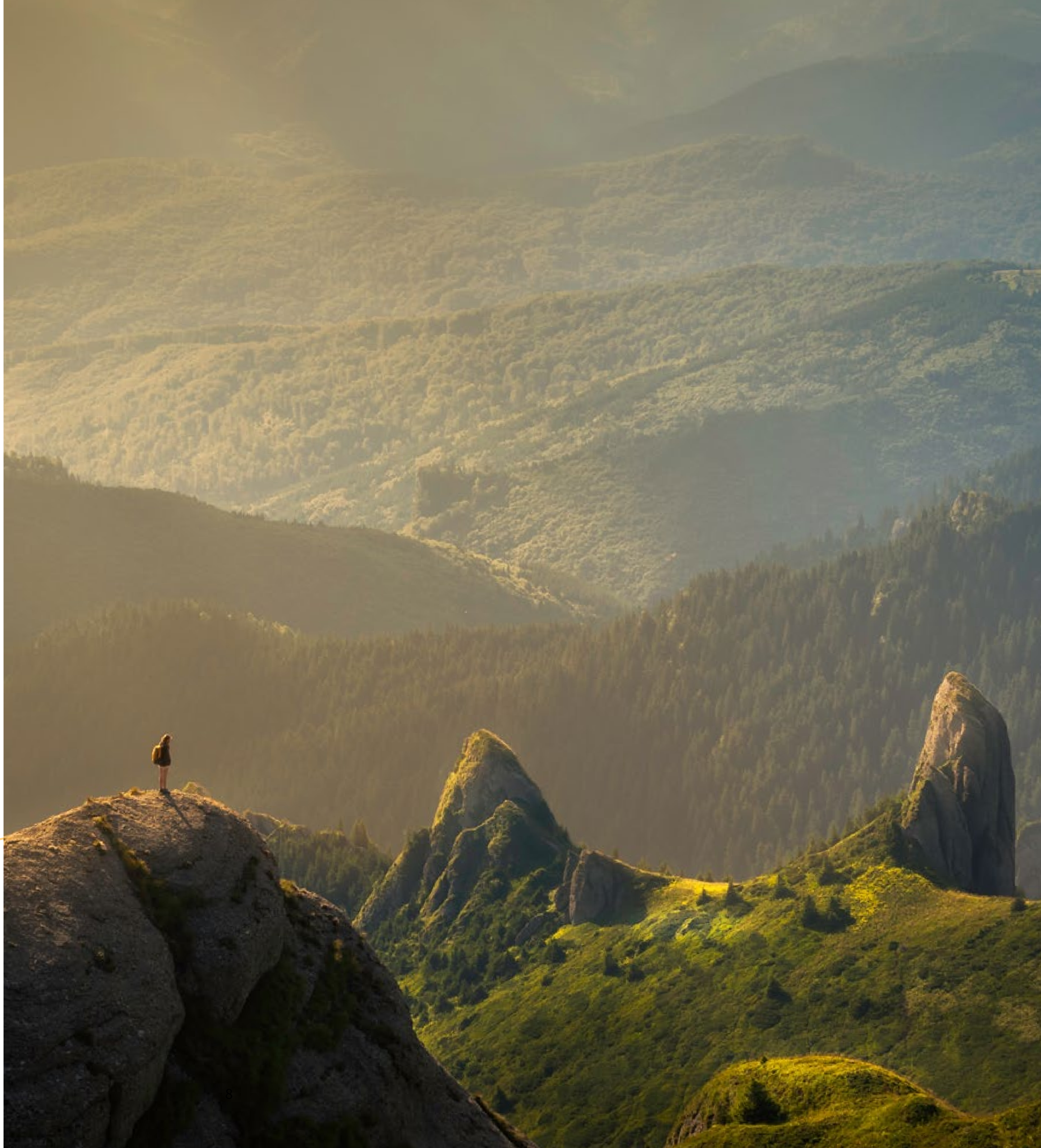
Reacting instinctively to situations is a human characteristic established over millions of years of evolution, when making a wrong move could have proved fatal, developing into our instinctive fear of loss. This means investors can often focus on the possibility of a short-term loss rather than the potential for a long-term investment gain.

Time invested in the market vs. timing the market

Rather than selling investments during a downturn, it might be useful to think about the phrase 'it's time in the market rather than timing the market'. Evidence suggests that trying to pick the right time to buy and sell is almost impossible and selling at the wrong time may lead to missing out on a market recovery.

If in doubt...

Everyone's situation is different, so speaking to a financial adviser before making any decisions is a good first step. They may be able to tailor an appropriate long-term investment plan to meet your specific needs. They may also be able to advise you of an appropriate course of action if you are nervous about potential losses to your investments due to volatility in the markets.



Avoid crystallising your losses

Selling as the market nears its bottom is a form of 'behavioural bias' that can have a detrimental effect on your financial health.

1

Entering the market

Investors will often choose to enter the market when confidence is high, and share prices are up.

2

Exiting the market

Then when there is a downturn, some investors try to minimise their losses by selling and exiting the market when share prices are below what they paid for them.

3

Crystallising losses

This means that the investor has made losses from the downturn, or 'crystallised' them. Investors who do this also miss out on any potential gains if and when the markets rebound.

4

Staying invested

Statistics show that staying invested in a diversified portfolio is often the best approach to make profit in the long term, and to avoid crystallising losses.

Benefits of cost averaging

Cost averaging (CA) is an investment strategy with the goal of reducing the impact of volatility on large investments. By dividing the total amount you are looking to invest into equal amounts, and investing at regular intervals, CA aims to reduce the risk of incurring a substantial loss resulting from investing the entire 'lump sum' just before a fall in the market.

The technique is so-called because it has the potential of reducing the average cost of shares bought. CA effectively leads to more shares being purchased when their price is low and fewer when the price is higher. As a result, CA can lower the total average cost per share of the investment, potentially giving the investor a lower overall cost for the shares purchased over time. An example of this in practice can be seen below.

Please note that this strategy does not always guarantee better results, as in a steadily rising market your investment would have benefited more from being made as an initial entire 'lump sum'.

Data supplied for illustrative purposes only. Capital at risk.

Five-point checklist

If you're worried that market movements might adversely affect your portfolio, here's a handy five-point investment checklist:

Focus on your long-term goals

Although the market can move up and down over the course of a year, or several years, it has historically remained positive over longer periods of time. If your investment horizon is longer than just a few years, remember that it's likely the market will recover losses over that period of time, although this is not guaranteed.

Past performance does not predict future returns.

Understand your tolerance to risk

If you know that you're likely to react to market declines, you may want to keep your portfolio in more conservative investments. It's much better to be a bit more conservative and hold on to your investments during market downturns than to buy riskier assets and sell during market crashes!

Select the right mix

From year to year, it's difficult to predict which asset classes will be the best performers. Diversifying your portfolio using a range of different investments could help to ensure that they don't all behave in exactly the same way. So while one part of your investment portfolio could be falling in value, the others may be flat or rising to balance it out. This differentiation in potential returns aims to reduce portfolio volatility, smooth out peaks and valleys in returns and help avoid unnecessary risk.

Avoid locking in your losses

Selling as the market nears its bottom is a form of 'behavioural bias' that can have a negative effect on your financial health. All too often, losses are locked in and opportunities for future gains are lost because investors often put money into the stock market as it rises and pull money out as it falls.

Look at the bigger picture

Experts recommend remaining calm and looking at the bigger picture. Remember that most market downturns are normal. As an investor, it is risky to make decisions based on emotions, especially fear. History shows that the best strategy is to remain calm and maintain your long-term perspective. And if you're ever in doubt speaking to a financial adviser before making a decision is a good first step.

Important information

Capital at risk. The value of investments, and any income from them, may fall as well as rise and investors may get back less than they originally invested. Exchange-rate fluctuations may also affect the value of their investment. Due to this and the initial charge that is usually made, an investment is not usually suitable as a short-term holding.

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