

Recent Market Volatility

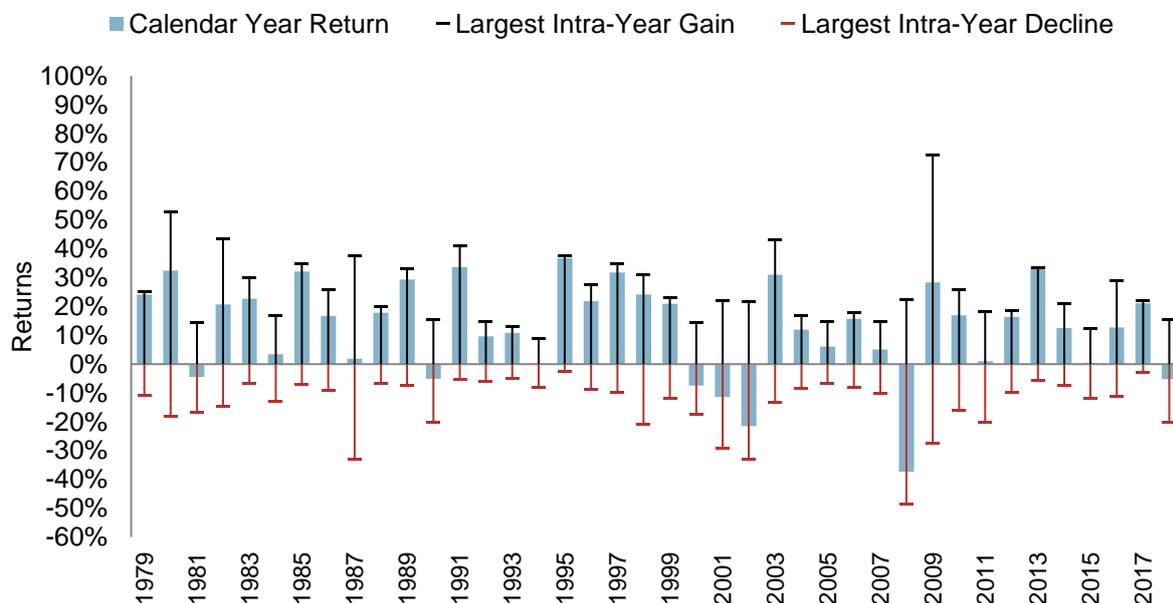
While it may be difficult to remain calm during a substantial market decline, it is important to remember that volatility is a normal part of investing.

In recent days the increase in volatility in the stock market has resulted in renewed anxiety for many investors. While it may be difficult to remain calm during a substantial market decline, it is important to remember that volatility is a normal part of investing. Additionally, for long-term investors, reacting emotionally to volatile markets may be more detrimental to portfolio performance than the drawdown itself.

INTRA-YEAR DECLINES

Exhibit 1 shows calendar year returns for the US stock market, the worlds biggest since 1979, as well as the largest intra-year declines that occurred during a given year. During this period, the average intra-year decline was about 14%. About half of the years observed had declines of more than 10%, and around a third had declines of more than 15%. Despite substantial intra-year drops, calendar year returns were positive in 33 years out of the 40 examined. This goes to show just how common market declines are and how difficult it is to say whether a large intra-year decline will result in negative returns over the entire year.

Exhibit 1 – US Market Intra-year Gains and Declines vs. Calendar Year Returns 1979-2018



Past performance is not a guarantee of future results.

REACTING AFFECTS PERFORMANCE

If one was to try to time the market in order to avoid the potential losses associated with periods of increased volatility, would this help or hinder long-term performance? If current market prices aggregate the information and expectations of market participants, stock mispricing cannot be systematically exploited through market timing.

In other words, it is unlikely that investors can successfully time the market, and if they do manage it, it may be a result of luck rather than skill. Further complicating the prospect of market timing being additive to portfolio performance is the fact that a substantial proportion of the total return of stocks over long periods comes from just a handful of days. Since investors are unlikely to be able to identify in advance which days will have strong returns and which will not, the prudent course is likely to remain invested during periods of volatility rather than jump into and out of stocks. Otherwise, an investor runs the risk of being on the sidelines on days when returns happen to be strongly positive.

Exhibit 2 helps illustrate this point. It shows the annualised compound return of the S&P 500 Index going back to 1990 and illustrates the impact of missing out on just a few days of strong returns. The bars represent the hypothetical growth of \$1,000 over the period and show what happened if you missed the best single day during the period and what happened if you missed a handful of the best single days. The data shows that being on the sidelines for only a few of the best single days in the market would have resulted in substantially lower returns than the total period had to offer.

Exhibit 2 – Performance of the S&P 500 Index, 1990-2018



CONCLUSION

While market volatility can be nerve-racking for investors, reacting emotionally and changing long-term investment strategies in response to short-term declines could prove more harmful than helpful. By adhering to a well-thought out investment plan, ideally agreed upon in advance of periods of volatility, investors may be better able to remain calm during periods of short-term uncertainty.

Do not act on this information alone! Always seek independent financial advice before taking any action.

For further information please contact:

jch: investment management
1 Henley Way
Doddington Road
Lincoln
LN6 3QR

t. 01522 697310

enquiries@jchim.co.uk

www.jchim.co.uk

jch: investmentmanagement

jch investment management limited is authorised and regulated by the Financial Conduct Authority
(FCA Registration No. 610812)