Taking the Plunge!

Anxiety about the equity market is understandable, but if we wait for the "perfect" time to invest, the risk is we never will.

The child was inconsolable. A day at the pool had ended without her joining her friends in the water. Time after time, she had dipped her toe in, only to shrink back in fear of the unknown. Now she was going home full of regret. Investing can be a bit like that.

In a period of uncertainty, as we have been seeing, it is quite understandable that investors should seek to time the market. Like the little girl standing at the poolside torn between fear and anticipation, it can be easy to rationalise against taking the plunge.

But the problem is that fear and uncertainty can never be eliminated. Those feelings are the emotional manifestation of risk that is the price we pay for the returns we are seeking. In the case of the girl at the pool, she wants to join her friends in the water, but her fear of the unknown is preventing her from doing so.

The way to deal with these feelings is firstly to recognise them as legitimate and in so doing bring them back down to size. Fear tends to loom larger when we don't confront it. It's OK to feel anxious, but not to the point where it stops us ever doing anything.

Secondly, we should think back on the best experiences in our lives and reflect on how often they involved taking a risk – whether it was enrolling in a degree course or changing careers or moving towns or having children. If we waited for everything to be perfect, we might not ever have got around to doing those things.

Thirdly, we might like to reflect that while there is a potential cost in taking that plunge, extreme risk aversion also comes at a cost. For the little girl at the pool, the cost of avoiding that brief moment of fear was a miserable car ride home feeling excluded as all the other kids talked about the fun they had had.

In global financial markets recently, the premium on perceived safety has been particularly high. For instance, investors in the sovereign bonds of Germany, the US and the UK have been prepared to accept negative real yields for the privilege of governments looking after their capital – a return-free risk in other words.

Now those decisions might be completely defensible given the risk appetites of those particular investors. But it's important also that we realise safety comes at a cost.

Finally, it is worth considering how quickly conditions can change while we are waiting for our anxiety to subside. My colleague Weston Wellington of Dimensional Fund Advisers, recently pointed out that amid all the recent turmoil, 22 prominent US firms have hit at least 52-week highs. These included household names like Johnson & Johnson, Hershey and Wal-Mart.

But this isn't just a US phenomenon. Among stocks in the UK market recently hitting 52-week highs or more have been food retailer Sainsbury, hotel and restaurant group Whitbread and aerospace company Rolls Royce.

In Canada, year-long highs have been registered by, among others, Canadian Pacific Railways, and oil and gas groups TransCanada Corporation and Enbridge.

And in Australia, for all the talk about an underperforming equity market, a large number of leading companies have hit 52-week highs – including Commonwealth Bank, Telstra, CSL, Tatts Group and News Corp.

We don't know which stocks will be the next ones to push to new highs. But we do know that those people sitting on the sidelines in cash – like the little girl shivering on the side of the pool – risk going home without sharing in the returns enjoyed by others.

The takeaway message is that there never is a perfect time to invest. If there were, we would have to redefine the notion of risk.

Uncertainty is the price we pay for the returns we are seeking. We deal with that uncertainty by understanding the risks we are taking, diversifying broadly and being mindful of the factors within our own control – like our own behaviour.

So sometimes, you just have to close your eyes and take the plunge.

For further information please contact:

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

t. 01522 697310
f. 01522 697350

enquiries@jchim.co.uk

www.jchim.co.uk