INVESTMENT REPORT

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BRENTHURST
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OF INDEPENDENT ADVICE

In this issue

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STAY INVESTED
FOR THE BEST RETURNS

The only certainty about market behaviour in 2016 has been uncertainty and volatility. As soon as markets recovered somewhat from one upset, the next one appeared on the horizon and fresh declines were recorded across global markets and asset classes. Muted global economic growth, terror attacks and political upsets – Brexit, the election of Donald Trump as the new President of the USA and local threats to arrest the embattled Minister of Finance, the release of the so-called 'state capture report' – all had a negative impact on markets and dampened investor confidence.

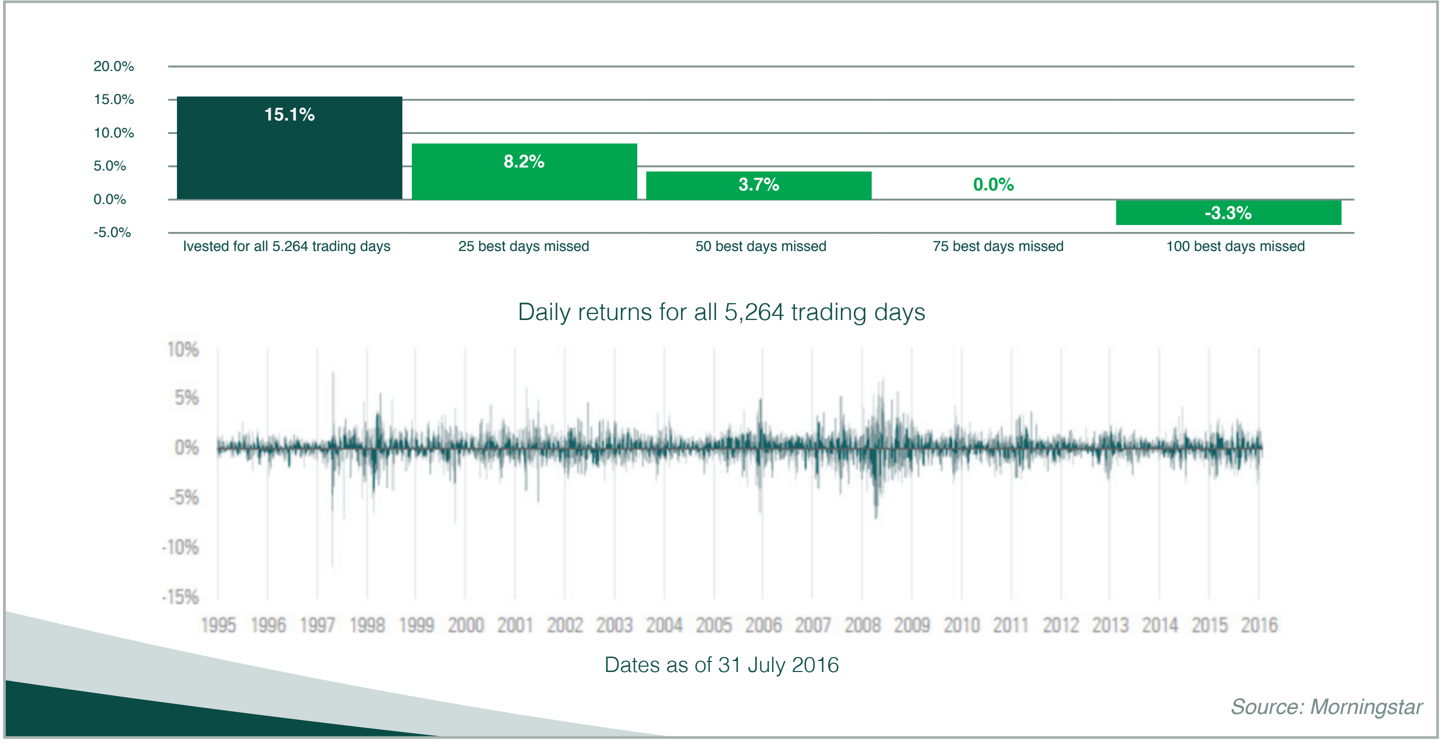
All these upsets have, understandably, made investors nervous and unsure about what strategies to follow. Being emotional about investments is a characteristic most of us succumb to and sadly this often leads to making the wrong choices at the wrong time. The fear created when markets crash has led many investors to such despair that they decide to pull their money out of the market. In many instances the timing is when markets are at their worst which is usually a poor decision . We came across a well-researched feature by respected financial journalist Patrick Cairns, which provides great insight for unsettled investors. **No matter how volatile the market is, sometimes the best thing to do is nothing and stay invested. Especially if you have a well-structured financial plan.**

Over the past 20 years, the JSE has returned around 15% per annum. However, if an investor had missed just the best 75 out of the 5 264 trading days in this period, their return would have been zero.

Per recent analysis by Morningstar, even missing just the best 25 days over the past two decades would have almost halved returns. And if an investor missed the best 100 days, their return would have been negative.

Brenthurst Wealth Management (PTY) LTD FSP No. 7833

THE COST OF MARKET TIMING
RISK OF MISSING THE BEST DAYS IN THE MARKET 1995-2016



Source: Morningstar

In the US, the figures are even more extreme. Per Morningstar's research, just missing the best 30 trading days on the S&P 500 over the past 20 years would have reduced returns to zero. Missing the best 50 days would have seen an investor earn returns of -3.7% per annum, as opposed to the 8.2% delivered by the market.

THE COST OF MARKET TIMING
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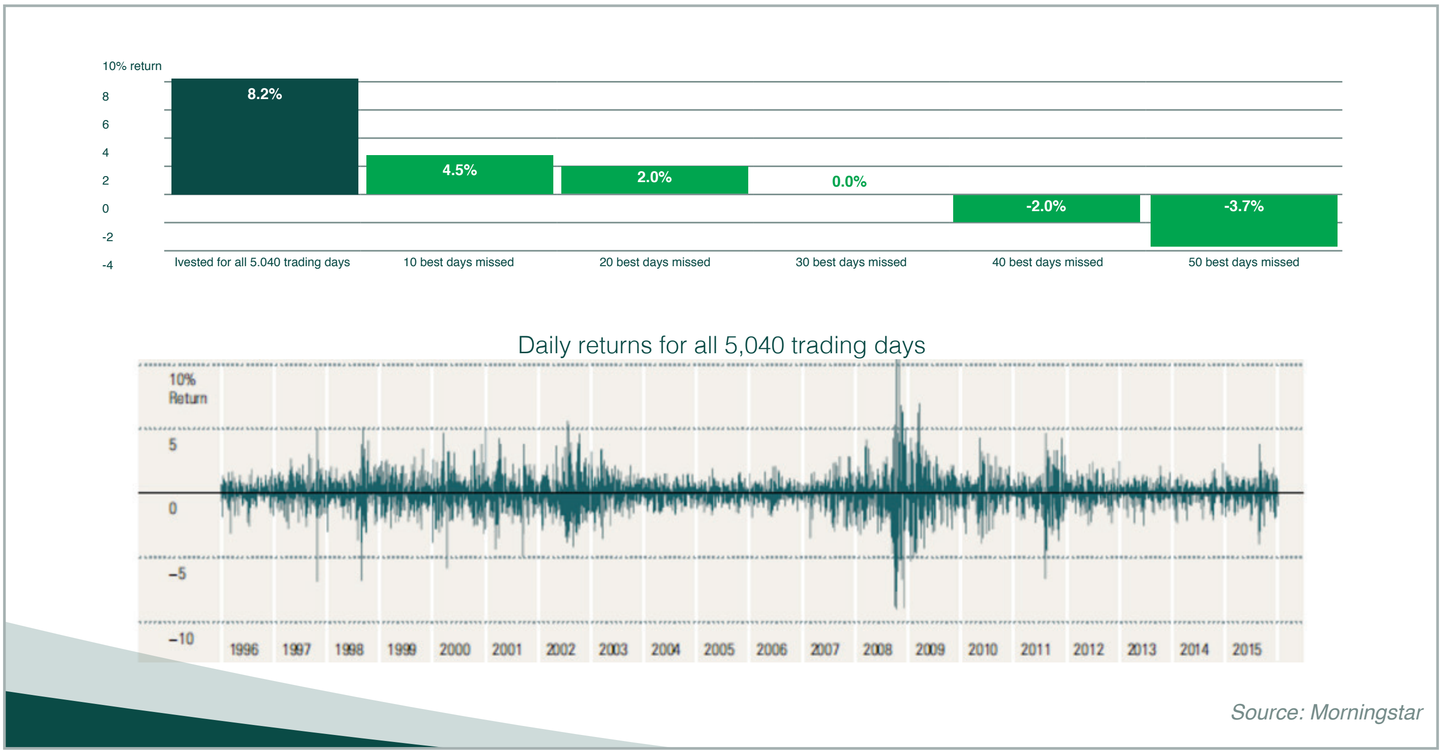


Source: Morningstar

These extraordinary statistics underline the importance of staying invested. There is simply no way an investor can logically identify when these good days will happen, and therefore the risk of trying to time the market is extremely high.

"Returns aren't linear," explains Morningstar's Gerbrandt Kruger. "Markets are volatile and from day to day you could be up or down. When you are trying to time the market, you will always run the risk of missing a few good days, and just missing those few days can have a massive impact on your performance."

Morningstar took this analysis further by looking at what would have happened to a series of theoretical investments of R100 000 made between January 1 2006 to July 31 2016. This period includes the market crash of 2008 when the index fell around 40%.

IMPORTANCE OF STAYING INVESTED
ENDING WEALTH VALUES AFTER A MARKET DECLINE

Source: Morningstar

The chart above illustrates the different outcomes investors would have seen had they followed different strategies at the time of the crash.

The **TOP YELLOW LINE** represents an investment in the top-performing equity fund over this period. To receive this return, the investor stayed invested throughout.

The **PALE BLUE LINE** is the index return. Again, this return is dependent on staying invested.

The **RED LINE** shows the outcome for an investor who withdrew their money at exactly the point during the market crash when the value of their investment had returned to R100 000. In other words, at that point, they were back to break even, so they did not actually lose anything. They then stayed out of the market for exactly one year before re-investing.

Even this strategy, which seems imminently sensible, would have produced a worse outcome than the one enjoyed by the investor who simply stayed invested all the time. This is because of the significance of the rebound that followed the crash. Just missing that brief period in the market would have dented the ultimate returns.

The **DARK BLUE** line represents an investor who exited at exactly the bottom of the market and reinvested again after one year. Clearly this is a terrible strategy, but the reality is that many investors would have done something very similar.

The fear created by the crash led many people to take their money out just at the point when things were near or at their worst. These investors would not have returned to the market until it was clear that upward momentum had returned, meaning that they missed out on the initial rally.

The lowest, **GREEN LINE** shows what would have happened to an investor who withdrew their money at the bottom of the market, put it in cash, and then never got back in. Again, this is an obviously poor decision, but one that is easy to make in the moment.

Whilst missing out on a market bounce is a big risk of disinvesting, an even bigger risk is failing to get back in again. Trying to time a return to the market is just as dangerous as trying to time an exit, and there are investors who took their money out during the crash and simply never felt like it was the right time to put it back. After inflation, these investors would have seen a negative return over this period.

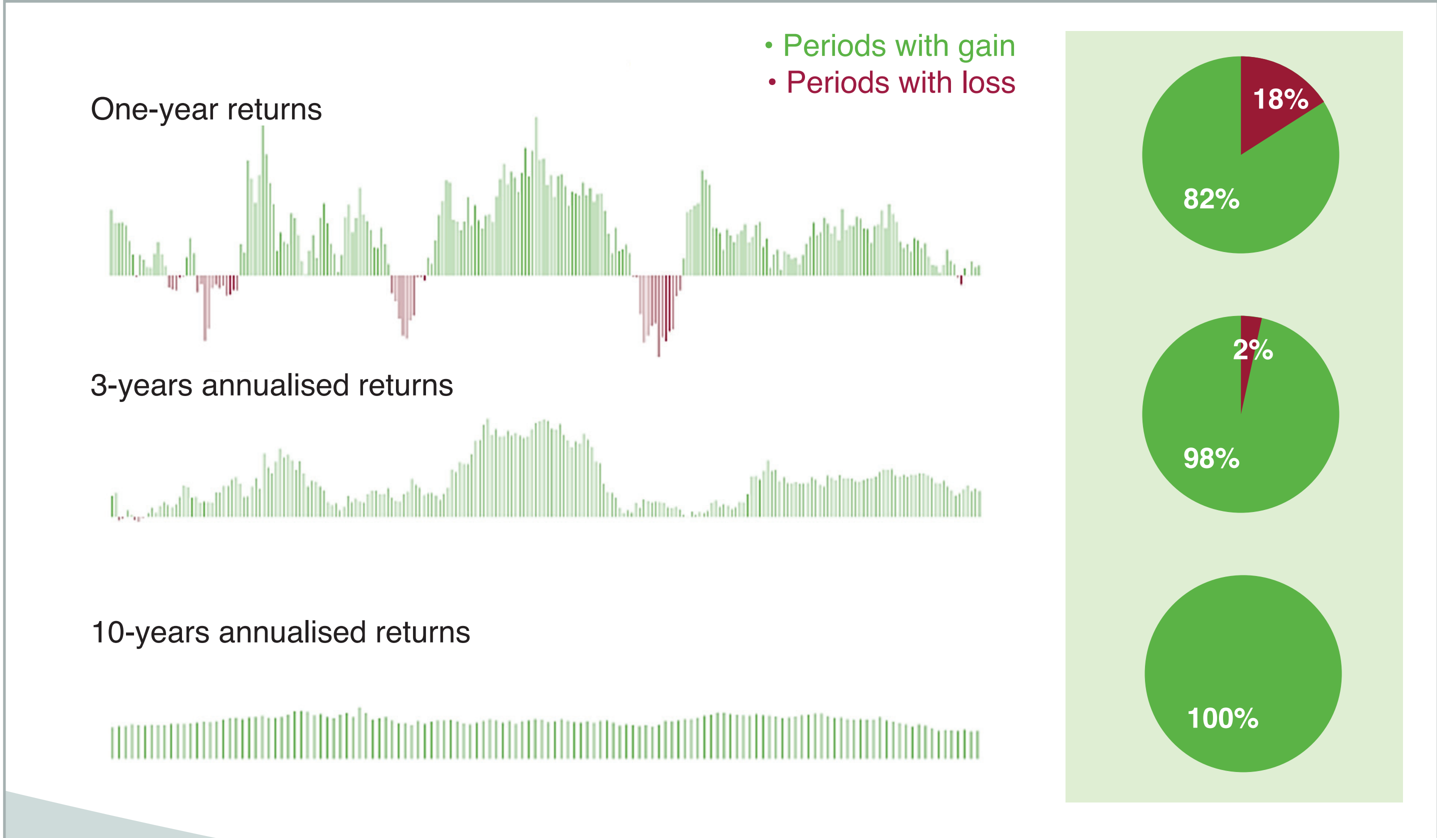
In the US, where the return on cash has been so low, investors who did something similar would be even worse off. They would only have about half of their initial $100 000 now.

"The important thing is that you shouldn't just disinvest on news or sentiment, because the risk is that you will lose out," says Kruger. "Markets do go up and down, but if you know that you have a long-term investment horizon, you shouldn't be focusing on daily returns, or even yearly returns.

YOU NEED TO STAY INVESTED WITH A LONG-TERM INVESTMENT PLAN THAT IS DESIGNED TO MEET YOUR TARGETS."

RISK OF EQUITY MARKET LOSS OVER TIME

1995-2016



Source: Morningstar

The above figure illustrates just how important having a long-term view is. What it shows is that the JSE has never been negative over any ten year-rolling period.

INVESTORS WHO HAVE STAYED INVESTED HAVE THEREFORE ALWAYS COME OUT ON TOP. AND THAT'S A LESSON WORTH APPRECIATING.

Newsletter Sources:

Patrick Cairns | 25 August 2016
Moneyweb

BRENTHURST WEALTH CERTIFIED FINANCIAL PLANNERS:

Brenthurst Wealth Management (PTY) Ltd is a registered financial services provider and is a fully-fledged financial and investment services company with offices in Johannesburg, Pretoria and Cape Town.

All our Financial Planners are CFP® Professionals and members of the Financial Planning Institute of Southern Africa. They are highly qualified to give advice on all investment matters.

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