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Whatever happens on the markets, do not panic

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We've all read the studies on the impact emotion has on investments – and the outcome is seldom, in fact, rarely, good. Since March 2020, stress levels have been at their highest in a generation. When coupled with market volatility, investors' nerves have frayed – especially when markets pull back. Emotion impacts rational thinking… and panic results in poor decision-making. It is an investor's own worst enemy.

If we have learnt anything in the last year relating to markets and corrections, it is that panic is the most dangerous reaction to any type of market correction. Consider the S&P 500. A year ago, we saw a drop of about 12% in one day in dollar terms, followed by a further correction that amounted to close to a 30% loss. The result was a wave of panic that rippled across the globe.

What has happened since then? The markets recovered, with the S&P hitting new highs over the past couple of months.

What we witnessed, as investors slowly came to terms with new issues in the market, was that those who panicked and sold out have been badly hurt by the decision.

Volatile markets

Essentially, there are five critical focus areas for investors to come to terms with – most importantly when markets are volatile. They need to gain a deeper understanding of not only themselves, but best practices in the industry to ensure that when emotions are high, their strategy remains sound.

First, understand your risk profile, and marry it to your goals and investment strategy. Simply put, an investor needs to decide what an acceptable degree of risk means to them. Whether taking a conservative, moderate, or aggressive approach to investing will depend not only on an individual's personality but goals and timelines.

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For example, a lower risk profile would exclude an investor from both the best of market returns and worst of market losses but offers a degree of capital investment protection. Someone needing to park funds for a relatively short period of time, while benefiting from a nominal capital growth would likely take a conservative approach. Conversely, a 30-year-old could approach investment aggressively, having time on their side, which would allow their portfolio to recover from market volatility.

Timing the markets

This clearly introduces the next aspect of investing when markets are volatile – time in the markets. When comparing the wisdom of 'timing the markets' with 'time in the markets', let us put the fallacy of timing the markets to bed sooner rather than later. Because it is just that, a fallacy – timing the markets is not a strategy and results in losses almost all of the time.

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