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DON'T BELIEVE THE 'BUY THE DIP' MYTH

By Gustav Reinach and Ruan Breed—Financial Advisors, Brenthurst Wealth

'Buy the dip' is a phrase you've probably heard quite a lot this year as market pundits have been trying to call the bottom of the market. The theory is solid: get into the market when it's at its lowest point so that you benefit from the full rally that's bound to follow. In practice, however, this is far from a sure thing.

While the advice to pick up quality stocks when they're at their lows sounds good, it's equally wise to heed the advice that it's a fool's errand trying to time the market. You might get lucky with a punt when markets are down, but this is bound to fail as a repeated strategy.

GROWTH OF \$1 (S&P 500 TOTAL RETURN)

The following graph shows the total return of the S&P500 from 1990 to 2018.

The red line shows that by missing just 25 of the best days of the market's performance over 28 years will leave you poorer.



The graph tracks the value of a \$1 investment over this time period, showing the performance if you'd missed the best 25 days – **the red line;**

The black line represents a near 14x growth of that \$1, and shows the result if you'd simply stayed in the market.

The grey line shows the result if you'd missed the 25 worst days, as well as the 25 best days.

The clearly inferior performance of the red-line portfolio is a stark reminder of the damage you can do in your efforts to try to avoid disaster when markets fall.

Bear in mind, for instance, that it takes a day to sell out of unit trusts, another day to reflect as cash in your bank account, and yet a further day to buy back in. So, even if you do have a sudden change of heart, getting back into the market is not as simple as you might think.

THE SHORT ANSWER TO THIS DILEMMA, THEN, IS STAY INVESTED IN THE MARKET.

YOU CAN GAIN SOME CONFIDENCE IN YOUR DECISION BY APPLYING THE FOLLOWING THREE PRINCIPLES WHEN CONSTRUCTING YOUR INVESTMENT PORTFOLIO:

1. FOCUS ON FUNDAMENTALS

Fundamentals, especially as it relates to cash flow, become especially important at a time when interest rates are rising.

Highly indebted companies, or those suffering cash flow crises, are especially vulnerable to rising rates and consumer apathy.

This lowers the chances that they'll be paying dividends, which is not only a key measure to consider, but a central theme for income-dependent investment strategies.

2. OPPORTUNITY COMES KNOCKING

A buoyant global economy seems far from where we're heading at the moment, but there are certain sectors that are projected to start showing some improvement.

The luxury or consumer discretionary sector is said to be poised for growth in the next 12 months. And if inflation starts falling as expected in 2023, other opportunities are bound to present themselves.

The lesson is that it makes sense to rebalance and position your portfolio according to prevailing and expected market conditions. As opposed to withdrawing from the market and hoping to time your return, this is a far more proactive approach to managing your portfolio.



3. VALUE STOCKS BACK IN FAVOUR

Following a long period of outperformance by growth stocks – particularly tech counters – we’ve seen a shift in the market to value stocks.

In fact, since November 2021, the S&P500 Pure Value Index has outperformed the S&P500 Pure Growth Index by a staggering 20 percentage points up until June this year. Add to this the view that many solid value counters are underpriced compared to the market, it might make sense to rebalance your portfolio.

As always, it pays to make those decisions and changes in consultation with a trusted financial advisor. If nothing else, an advisor will have earned his/her fee if he/she managed to convince an investor to ignore the noise and stay in the market. By all means, shift your investments to suit the market mood and your goals, but please never quit the market because you hope to avoid losses and profit when the market turns. And if you doubt this advice, I invite you to relook at the red line in the graph above. That level of value destruction is clear and completely avoidable. It’s your choice.

TO BUILD, PROTECT AND GROW WEALTH REQUIRES A LONG-TERM FINANCIAL PLAN AND INVESTMENT STRATEGY

ADVISOR PROFILES

GUSTAV REINACH



RUAN BREED



GUSTAV REINACH, Financial Advisor at Brenthurst Pretoria
B.com Economics

Email: gustav@brenthurstwealth.co.za

Phone: + 27 12 347 8240 | Mobile: + 27 83 267 5329

RUAN BREED, Financial Advisor at Brenthurst Stellenbosch
BCom. Fin Science | CIMA Adv Dip MA | PGDip Investment Planning

Email: ruan@brenthurstwealth.co.za

Phone: +27 21 882 8706 | Mobile: 082 551 3299

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