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FORGET THE PRESENT FOCUS ON THE FUTURE

By Mags Heystek, Certified Financial Planner®, Brenthurst Wealth Sandton

If ever you wanted evidence that markets are unpredictable, then look no further than the past 12 months. With global interest rates hitting record highs, fears of a global recession have been swirling for months, yet major stock markets have started to show early signs of a recovery from the bear market.

The squeeze on markets over the past two years resulted in some investors doing what they often do in times of uncertainty; they withdraw from volatile markets into more defensive assets such as money market funds or other assets in the hope of avoiding further fall-out in the markets.

However, data shows that not reacting to adverse market conditions is usually the best approach.

This is a conversation I quite frequently have with clients when they're worried about the future value of their investments, based on current influences. You shouldn't be surprised to hear that the advice I give them most often is: **“Don't panic”.**

YOU CAN'T TIME THE MARKET

One of the oldest catchphrases you'll hear in investing is that you can't time the market. The lesson here is, that while you might want to exit a declining market before your portfolio loses more value, there's no way to know when exactly to buy back in again. **TIME IN THE MARKET IS ALWAYS A BETTER APPROACH THAN TIMING THE MARKET.**

All too often **investors** exit their equity positions in favour of less volatile assets, but then remain out of the market, hoping to find the best point to buy back in again.

When this happens, their fear keeps them rooted in low-return assets that don't grow fast enough to beat inflation, meaning they're constantly losing buying power.

This reaction is only natural because humans are programmed to base their decisions on recent events. Known as the 'recency bias', this reaction psychologically makes sense because, who wants to take on unnecessary risks? If your recent experience has been that markets are falling, then you usually expect more of the same. Until, of course, when markets turn positive. **And when do you know that markets have turned? Usually by the time it is too late.**

TIME IN THE MARKET

Because we can't predict the future, it's only with hindsight that we can say with certainty where markets have turned from bear into bull territory. **CONSIDER THIS GRAPH DEPICTING THE S&P500 AVERAGE RETURNS FROM 1993 TO 2022.**

GOOD DAYS HAPPEN IN BAD MARKETS

S&P 500 Index Best Days: 1993-2022



MISSING THE MARKET'S BEST DAYS HAS BEEN COSTLY

S&P 500 Index Average Annual Total Returns: 1993-2022



If, for example, you had invested US\$10,000 in 1993, **missing only the 10 best days** (out of the more than 7,000 trading days in this 29-year period) would have resulted in your portfolio having performed **54% worse** compared to if you had remained invested for the full period.

Double the number of best trading days missed, and the opportunity costs rises to 73%, while you'll be 83% worse off if you'd missed the 30 best trading days.

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BULLS. BEARS. WHO CARES?

What is most interesting about the S&P500 returns over this period is that most gains were not, in fact, as a result of bull market conditions.

ACCORDING TO THE DATA, 52% OF THE BEST 50 TRADING DAYS OVER THIS PERIOD OCCURRED IN A BEAR MARKET. The rest of the best trading days occurred in the first two months of a bull market (26%), with the remainder of a bull market accounting for 22% of the best trading days.

Waiting for better days – which one would expect to find during bull market conditions – is clearly not a winning strategy. Investing needs time and, most importantly, patience, as well as the recognition that up and down cycles are but part of how markets work. What's impossible to know, however, is when bear markets will end and bull markets will begin.

This question of when markets are going to turn is one that investors and fund managers are currently grappling with. With interest rate hikes slowing, and possibly reversing in the next 12 months, some may feel that the conditions are looking slightly more positive for the future, which they might well be.

However, this question is less important if you've stuck to your investment strategy over the past two years and continued to invest, irrespective of the state of equity markets. As reflected by historical data, this is the most prudent approach to building long-term wealth. The added bonus is that you won't be stressing over when to return to the market in a bid to catch the market at its very bottom.

ADVISOR PROFILE: MAGS HEYSTEK, CERTIFIED FINANCIAL PLANNER®, BRENTHURST SANDTON



MAGS is the head of the Sandton office, and also serves as the key individual for JHB.

Mags has been in the financial services industry for over ten years and qualified as a CERTIFIED FINANCIAL PLANNER® professional in November 2012. Mags also acts as a representative and key individual for Brenthurst Capital (Pty) Ltd and a member of the investment committee dealing with investment and asset allocation decisions.

Mags is a CERTIFIED FINANCIAL PLANNER® professional, a member of the Financial Planning Institute of SA and is fully qualified to give advice on all investment matters.

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