Lync Wealth Management

The importance of remaining invested

Introduction

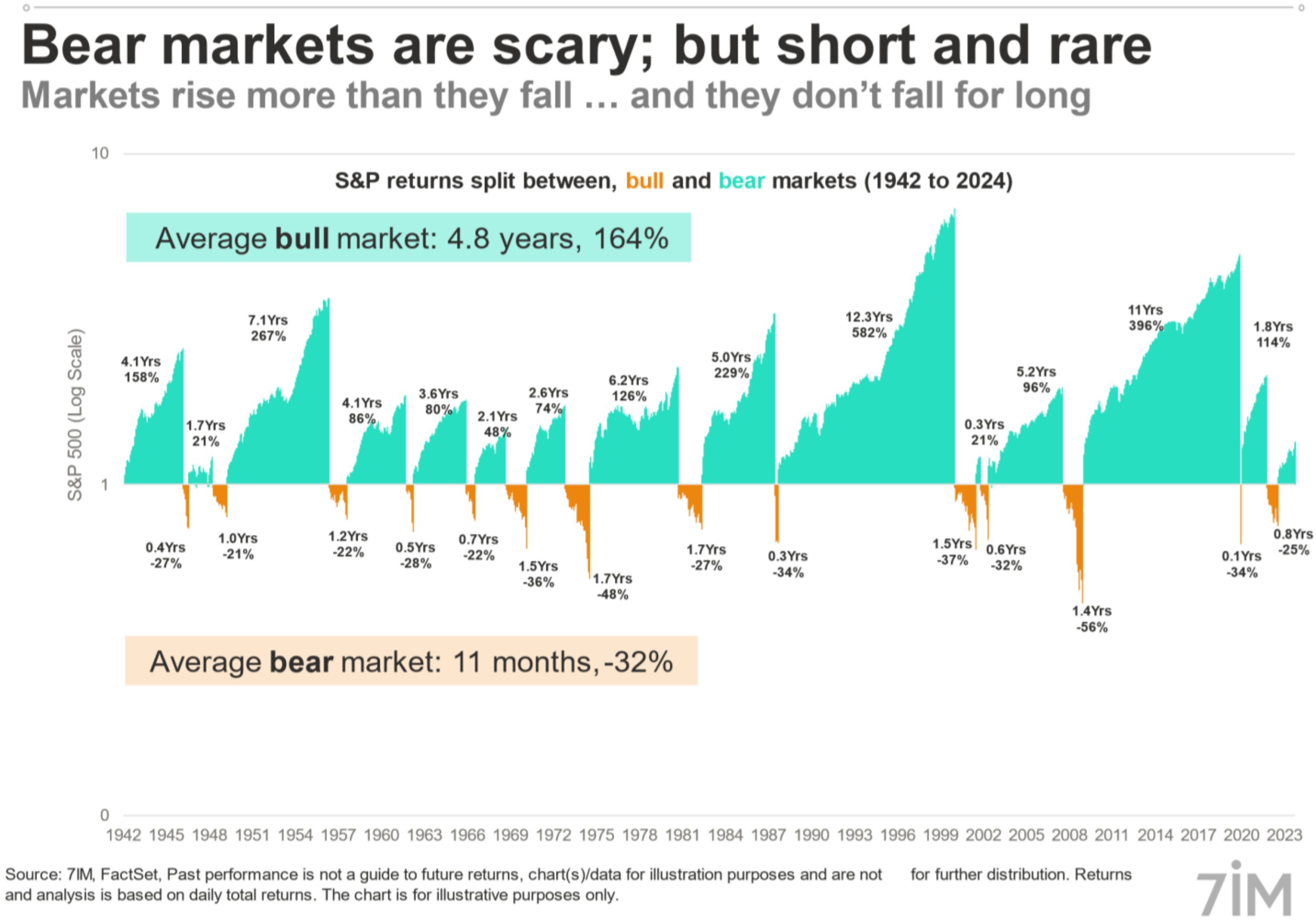
As part of the financial advice process, your Financial Adviser or Planner will no doubt speak with you about risk assets, such as stocks and shares (equities), forming part of your long-term investment plan. They will also discuss with you the risks associated with these assets and how the risks can be mitigated, depending on your tolerance for volatility (the fluctuations in the value of your investments over time).

Alongside this, they will stress that your investment strategy should be over the longer term (typically over 5 years) and, crucially, the importance of sticking to the agreed plan (unless personal circumstances dictate otherwise). Unfortunately, many private investors, particularly those without an Adviser or Planner, can sometimes react to stock market volatility at the wrong time, which results in losses being realised.

This document aims to explain how stock markets behave, what drives them, why you should ignore short term volatility and how, by sticking to the plan, your long-term investment objectives can be achieved.

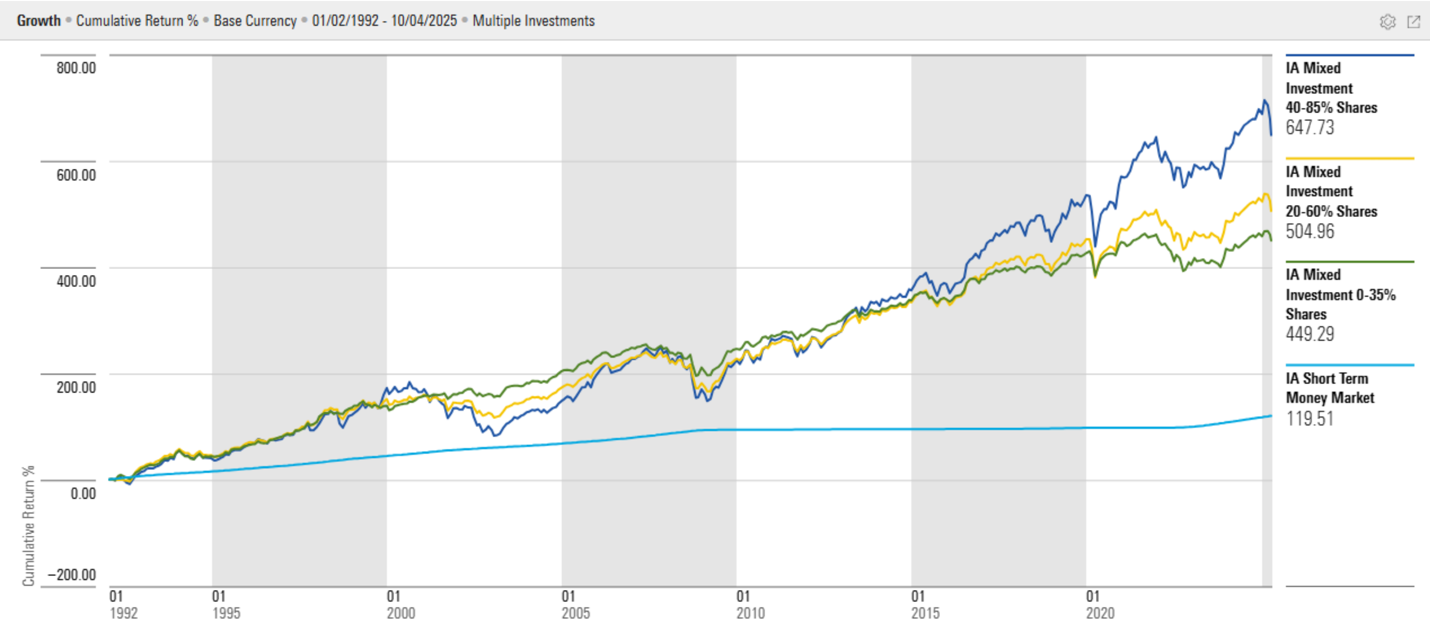
We can look at the long-term nature of the stock market in terms of Bull (rising) and Bear (falling) markets over time. For the vast majority of time, stock market returns are positive, but there are occasions where they are significantly negative. Fortunately, however, these periods of negative returns are relatively short lived i.e., 1.2 years on average, so can be ridden out by sitting still. This is the reason why your investment plan is based over a longer period. Still, the extent of these falls can still be uncomfortable for many people, leading to them selling out at the wrong time, so your Adviser or Planner will look at how the impact of these falls can be reduced.

Long term stock market returns – Bear vs Bull markets



Reducing the impact of the falls

The chart above is just of the UK stock market and does not include any other types of investment. Your Adviser or Planner will discuss with you the importance of diversifying your portfolio, which means including other, less risky, investments to accompany stock market-based ones. It must be understood that the level of falls that you are able to tolerate will ultimately have a bearing on the level of returns achieved.

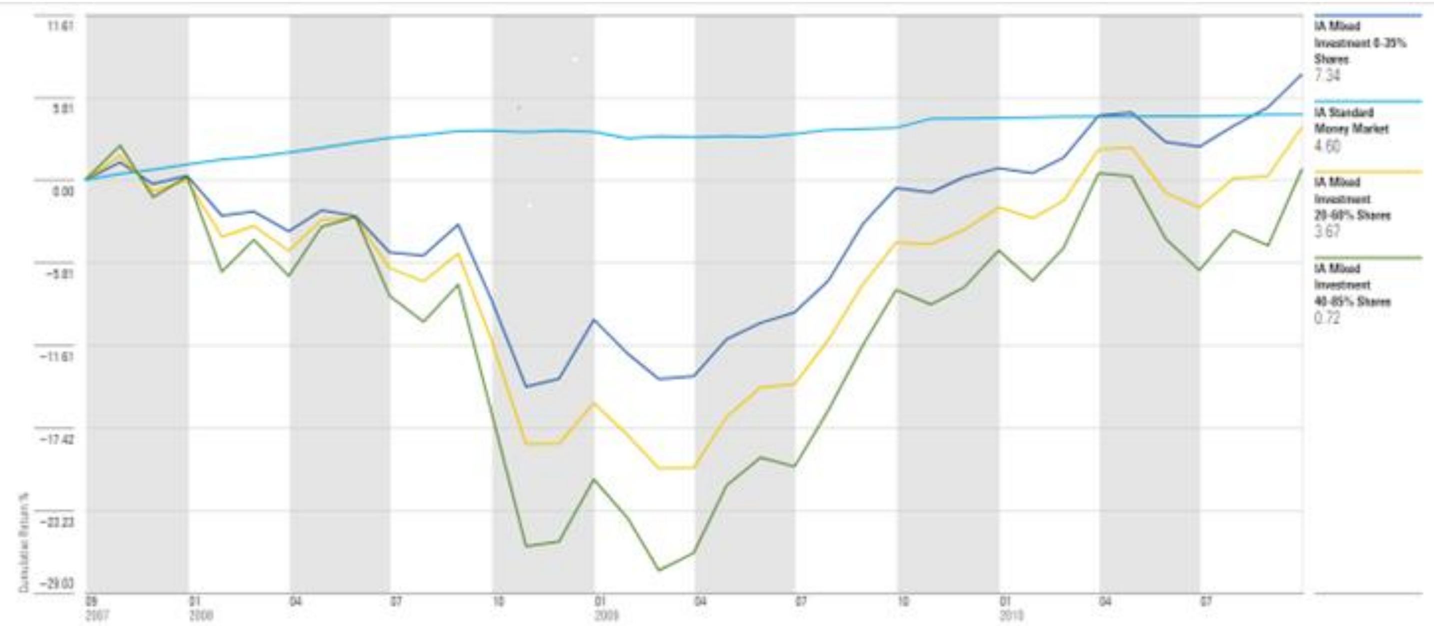


Source: Morningstar 10/04/2025

Portfolio performance show returns in GBP includes reinvestment of dividends and interest. Excludes platform fees and ongoing adviser charges.

This can be demonstrated by the difference between the returns for three fund manager industry sectors with differing level of equities: up to 85%, up to 60% and up to 35%.

All of them significantly outperform the index representing money market (cash) funds, but to differing degrees. The flipside of this, is that the level of negative return during the Great Financial Crisis (GFC) in 2008/09 (the last sustained Bear market) for the higher risk Equity portfolio is greater than the Cautious.



Source: Morningstar 31/07/2023

Portfolio performance show returns in GBP includes reinvestment of dividends and interest. Excludes platform fees and ongoing adviser charges.

Looking at the second chart above, which shows the unlucky investor who managed to invest at the very top of the market in 2007. you can see the difference in the extent of level of falls between the 3 portfolios described above. The lower risk portfolios are quickest to recover their initial value, but they all recover this within around 36 months.

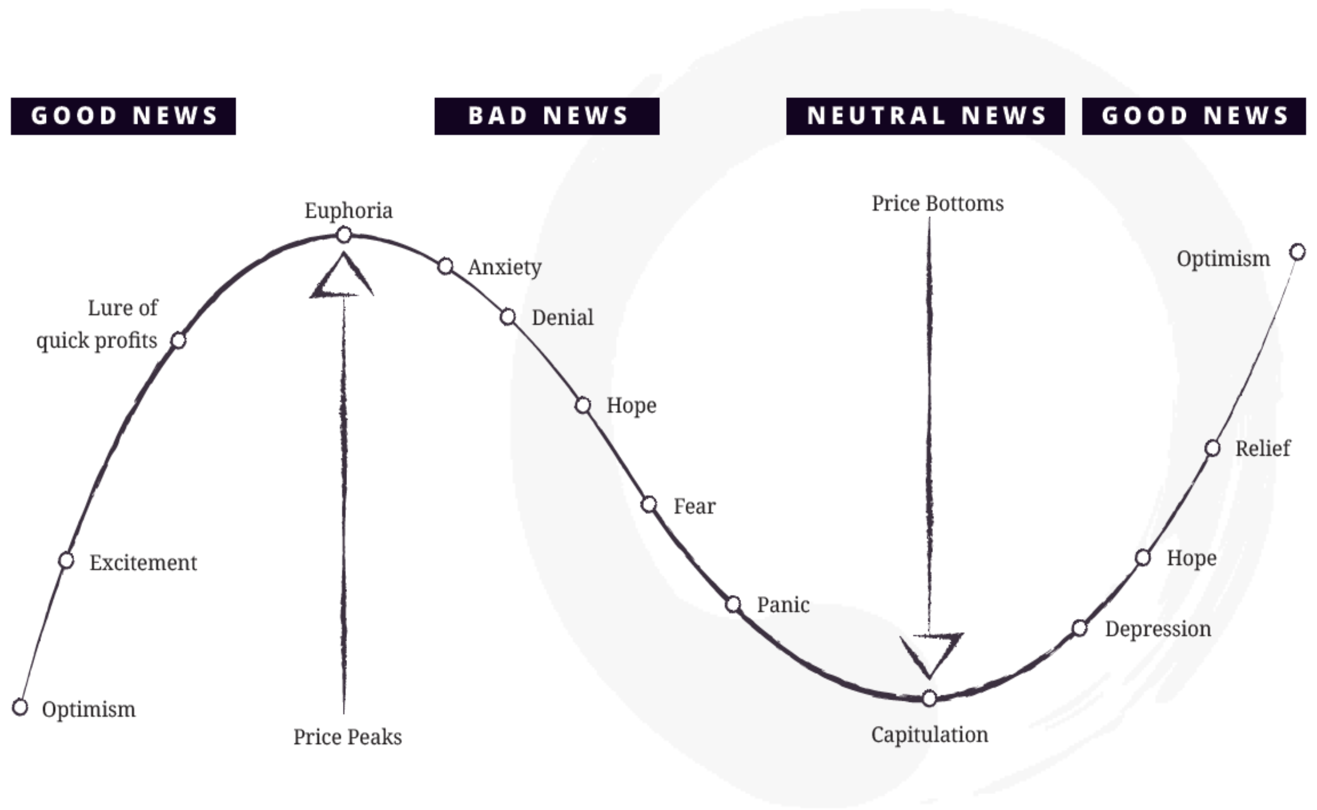
This demonstrates both the importance of agreeing the level of diversification in your portfolio with your adviser in the first instance and sticking with your investment plan over time.

Why do private investors tend to sell at the bottom?

So, if it is that simple, why are many private investors driven to sell when the market is in a down phase? The answer is emotions. We are all human and have certain emotional biases hard-wired into our brains.

The chart below shows the emotions experienced during differing parts of the stock market cycle and which are heavily influenced by the mainstream news. They can be useful for survival, but not for investing because they cause us to get greedy during the up phases and panic during the down phases.

Your emotions and decision-making processes during a stock market cycle



Professional investors, however, can behave differently to DIY investors. This is because they are trained in their field, generally have access to better information and, therefore, are better equipped to handle their emotions during the extremes of stock market cycles.

Academic evidence (Kaufman, 2005) shows that, as a consequence of this and as a general rule, professional investors are selling to private investors towards the top of the market and buying from them when they panic at the bottom.

So, what is the relevance of a Financial Adviser or Planner in the context of the above?

- They will make sure that your portfolio matches your tolerance for risk in the first place.
- As professionals, they generally have access to more information sources than their clients.
- They are able to ignore mainstream media 'noise', thus, they are less emotive in relation to investments as a result.
- They can help to prevent clients chasing returns in extreme 'up' market, as well as stopping them realising losses at the wrong time during 'down' markets i.e., helping them to overcome the fear accompanying market falls.

In summary, professional investors are able to help clients cope psychologically and 'stick with the plan'. When it comes to assessing the value of your Financial Adviser or Planner, their ability to help you cope with the ups and downs of risk-based investments is one of the most significant contributions to that value.

There is increasing evidence to suggest that, when it comes to assessing the value of your Financial Adviser or Planner, their ability to help you cope with the ups and downs of risk-based investments is one of the most significant contributions to that value (See Vanguard's 'Adviser Alpha', University of Montreal 'the value of advice', et al).

Asset class performance

2011	2012	2013	2014	2015	2016	2017
Gilts 16.7%	Real Estate 27.7%	Japan Equity 54.6%	Real Estate 15.0%	Japan Equity 9.9%	Emerging Market Equity 32.7%	Emerging Market Equity 25.3%
Global Inflation Linked Bonds 11.5%	Japan Equity 21.6%	US Equity 31.5%	Gilts 14.6%	European Equity 3.8%	UK Equity 16.8%	US Equity 21.1%
Gold 10.1%	Global High Yield Bonds 19.3%	UK Equity 20.5%	US Equity 13.0%	Emerging Market Bonds 1.9%	Global High Yield Bonds 14.8%	Japan Equity 19.7%
Emerging Market Bonds 9.3%	Emerging Market Bonds 17.8%	European Equity 17.9%	UK Corporate Bonds 12.5%	Global Govt Bonds 1.8%	UK Corporate Bonds 12.3%	Gold 13.5%
UK Corporate Bonds 6.5%	UK Corporate Bonds 15.5%	Global High Yield Bonds 8.0%	Japan Equity 9.5%	US Equity 0.7%	Commodities 11.4%	UK Equity 12.9%
Global Govt Bonds 6.0%	US Equity 15.2%	Real Estate 3.7%	Global Inflation Linked Bonds 9.4%	UK Corporate Bonds 0.7%	US Equity 11.2%	Real Estate 10.4%
Global Corporate Bonds 5.0%	European Equity 13.8%	UK Corporate Bonds 1.6%	Global Govt Bonds 8.5%	UK Equity 0.7%	Gilts 10.7%	Global High Yield Bonds 10.2%
Global High Yield Bonds 2.6%	Emerging Market Equity 12.9%	Cash 0.5%	Global Corporate Bonds 7.9%	Cash 0.6%	Global Inflation Linked Bonds 10.3%	Emerging Market Bonds 7.2%
US Equity 1.5%	UK Equity 12.0%	Global Govt Bonds 0.3%	Emerging Market Bonds 6.2%	Gilts 0.5%	Emerging Market Bonds 9.4%	European Equity 6.5%
Cash 0.7%	Global Corporate Bonds 11.1%	Global Corporate Bonds 0.2%	Emerging Market Equity 4.0%	Global Corporate Bonds 0.1%	Gold 8.0%	UK Corporate Bonds 4.9%
UK Equity -3.2%	Gold 7.1%	Gilts -4.2%	European Equity 1.2%	Global Inflation Linked Bonds -0.7%	Global Corporate Bonds 5.8%	Global Corporate Bonds 4.6%
Real Estate -6.5%	Global Inflation Linked Bonds 5.9%	Emerging Market Equity -4.5%	UK Equity 1.2%	Real Estate -0.8%	Real Estate 4.1%	Global Inflation Linked Bonds 2.3%
Commodities -13.4%	Global Govt Bonds 4.7%	Global Inflation Linked Bonds -5.4%	Cash 0.5%	Global High Yield Bonds -4.2%	Global Govt Bonds 3.6%	Gilts 2.0%
European Equity -17.1%	Gilts 2.9%	Emerging Market Bonds -8.3%	Global High Yield Bonds -0.1%	Emerging Market Equity -10.0%	European Equity 0.7%	Global Govt Bonds 1.1%
Emerging Market Equity -18.0%	Cash 0.8%	Commodities -9.6%	Gold -1.4%	Gold -10.6%	Cash 0.6%	Commodities 0.7%
Japan Equity -18.7%	Commodities -1.1%	Gold -28.1%	Commodities -17.0%	Commodities -24.7%	Japan Equity -0.7%	Cash 0.4%

2018	2019	2020	2021	2022	2023	2024
Global Govt Bonds 1.1%	US Equity 30.7%	Gold 24.4%	US Equity 28.2%	Commodities 13.8%	Japan Equity 28.6%	Gold 27.21%
Cash 0.7%	European Equity 24.8%	US Equity 17.8%	Commodities 27.1%	Cash 1.5%	US Equity 25.7%	US Equity 24.50%
Gilts 0.5%	Real Estate 21.9%	Emerging Market Equity 14.9%	Real Estate 26.1%	UK Equity 0.8%	European Equity 19.2%	Japan Equity 20.74%
Global Inflation Linked Bonds -1.5%	UK Equity 19.2%	UK Corporate Bonds 9.1%	European Equity 21.0%	Gold -0.3%	Global High Yield Bonds 13.4%	Emerging Market Equity 9.60%
Gold -1.6%	Gold 18.8%	Global Inflation Linked Bonds 9.0%	UK Equity 18.2%	Japan Equity -4.5%	Gold 13.1%	UK Equity 9.44%
UK Corporate Bonds -2.2%	Japan Equity 18.5%	Gilts 8.9%	Japan Equity 13.4%	Emerging Market Equity -10.6%	UK Corporate Bonds 9.8%	European Equity 8.28%
Global Corporate Bonds -2.7%	Emerging Market Equity 13.8%	Japan Equity 8.8%	Global Inflation Linked Bonds 5.4%	Global Govt Bonds -11.7%	Real Estate 9.7%	Global High Yield Bonds 7.48%
Global High Yield Bonds -3.3%	Global High Yield Bonds 13.7%	Global High Yield Bonds 8.0%	Global High Yield Bonds 1.4%	European Equity -11.7%	Emerging Market Bonds 8.9%	Emerging Market Bonds 7.21%
US Equity -4.9%	UK Corporate Bonds 11.0%	Global Corporate Bonds 7.2%	Cash 0.0%	Global High Yield Bonds -13.2%	Global Corporate Bonds 8.0%	Cash 5.23%
Real Estate -5.6%	Global Corporate Bonds 10.6%	Emerging Market Bonds 5.8%	Global Corporate Bonds -1.0%	Global Corporate Bonds -15.3%	UK Equity 8.0%	Global Corporate Bonds 3.29%
Emerging Market Bonds -7.1%	Emerging Market Bonds 10.5%	Global Govt Bonds 4.6%	Emerging Market Equity -1.7%	Global Inflation Linked Bonds -18.1%	Global Govt Bonds 5.8%	Global Govt Bonds 2.65%
Emerging Market Equity -9.4%	Gilts 7.1%	Cash 0.4%	Global Govt Bonds -2.0%	US Equity -18.5%	Cash 4.8%	UK Corporate Bonds 1.71%
UK Equity -9.5%	Global Inflation Linked Bonds 6.8%	Commodities -3.5%	UK Corporate Bonds -3.3%	UK Corporate Bonds -19.3%	Emerging Market Equity 4.1%	Real Estate 0.94%
Commodities -13.0%	Global Govt Bonds 5.5%	European Equity -5.1%	Gold -3.4%	Real Estate -25.1%	Gilts 3.6%	Commodities 0.12%
European Equity -14.3%	Commodities 5.4%	Real Estate -9.0%	Emerging Market Bonds -4.8%	Gilts -25.1%	Global Inflation Linked Bonds 3.5%	Global Inflation Linked Bonds -0.65%
Japan Equity -15.1%	Cash 0.8%	UK Equity -10.3%	Gilts -5.3%	Emerging Market Bonds -26.1%	Commodities -12.6%	Gilts -4.02%

Performance is total return and in the local currency of the index, or hedged to GBP. The only exception to this is Emerging Market Equity, where returns are unhedged for a GBP investor. This is due to the cost and constraints on hedging Emerging Markets currency. Source: 7IM / Factset December 2024

The table above shows, in an intuitive way, the performance of different asset classes over 11.5 years.

What does this table tell us?

Asset classes' performance varies significantly from year to year.

Diversification is key: It is a high-risk strategy to pin your investment strategy on one or two asset classes in the hope that they might be next year's winner; they could also be next year's loser. Holding a range of these assets spreads your risk. However, the proportions will be decided by your attitude to risk.

Market capitalisation should not be ignored: the largest market in the world, US large cap (S&P 500), has been in the top half over most periods. If you are 'tilting' your asset allocation, it is important to have a forward-looking view in order to capture the potential returns of those performing assets and reduce the impact of the underperforming ones.

Not many asset classes that have performed well in the previous year, do so the next year, so looking back can be perilous (e.g., Asia ex-Japan – top left to bottom right).

Having a bias to your domestic market (so called, home bias) at all times, can lead to allocation to underperforming assets: the UK has been out of the top half more than it has been in it and has often been the bottom performer.

All Rockhold portfolios have diversification and risk management at their core. Using a forward-looking investment process, our investment managers will tilt the portfolios based on their years of experience, whilst maintaining diversification. The intention being to reduce exposure to the assets that are likely to drag on performance in the coming year and increase exposure to those asset classes that are likely to make a positive contribution.

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Lync Wealth Management

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Investments carry risk. The value of your investments (and income from them) can go down as well as up, and you may get back less than you invested. Past performance is not a reliable indicator of future results. Investments should be considered over the longer term and should fit in with your overall attitude to risk and financial circumstances.

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