5 REASONS FOR CLIENTS TO STAY INVESTED

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Summary

- Do not focus on short-term market noise – rather keep the long-term picture of the market in mind.
- Historically, after a decline the market typically has rallied in the subsequent 1, 3 and 5 years after the decline.
- Time in the market is much more important than trying to time the market – missing a few positive months is detrimental to your wealth.
- When the market is declining, disinvesting and fleeing to cash typically leads to a worse outcome than staying the course.
- The market's performance should be judged over relevant time horizons of 5 years and longer.

Introduction

The first quarter of 2020 was painful to markets and investors. There was nowhere to hide – all asset classes sold down viciously in the "dash-for-cash" frenzy. At their worst point, indices of local equity, bonds and property had declined by 30%, 27% and 48% respectively.

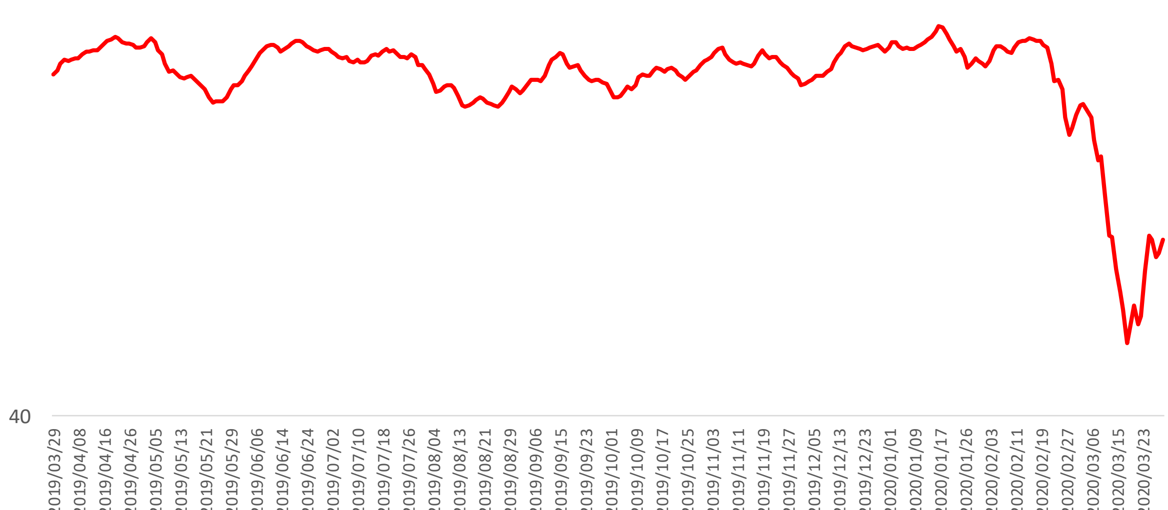
When markets de-rate, investors understandably get nervous and are prone to make mistakes in the heat of the moment. At times like these, it is important to try and keep a cool head, focus on the long-term market performance and the long-term goals stipulated in investment plans.

We would like to provide advisors with the following five reasons to help calm their and their clients' nerves in the next inevitable downturn in markets. The five reasons are depicted visually, are easy to explain and understand and updated charts are readily available.

The market is volatile in the short-term – rather focus on the long-term upward trend…stay invested

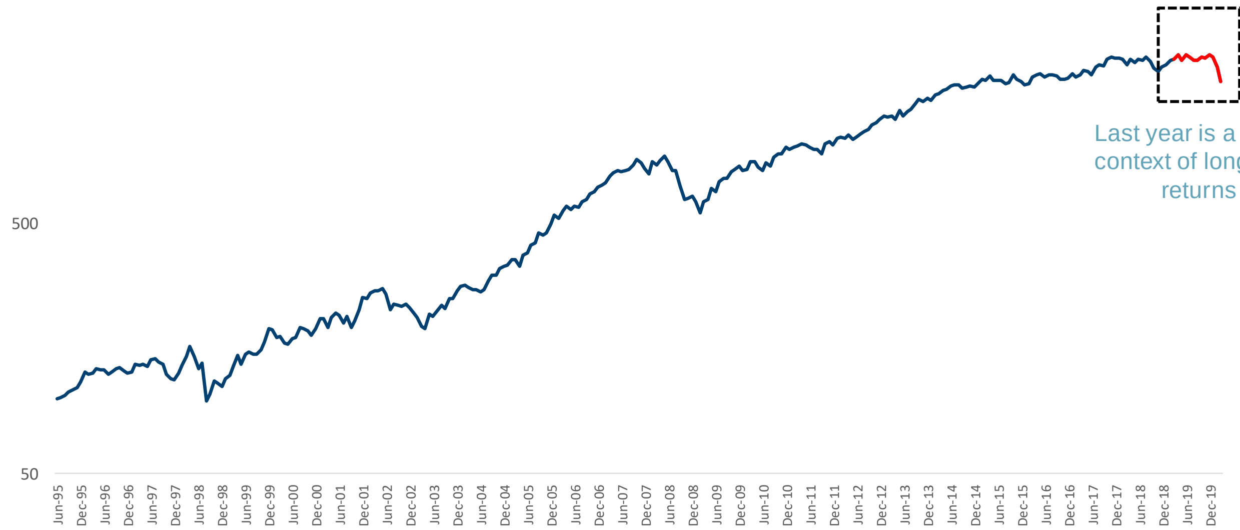
Figure 1A below depicts the daily performance of the FTSE/JSE All Share total return index for the last 12 months to March 2020. The market has been fluctuating daily, swinging from positive to negative and then experiencing a steep decline in the first quarter of 2020. Investors who anxiously monitor their investments daily are bombarded with positive and negative news and reasons for why the market is re-rating the one day and de-rating the next day. Currently there is no shortage of bad news, so investors may be forgiven for being very cautious to entrust their hard-earned cash to the volatile markets.

Figure 1A: FTSE/JSE All Share Index TR: daily for last year to March 2020



However, if investors were to step back from the daily noise, it should become apparent that daily fluctuations in markets are caused by short-term noise, and that the long-term trend of the ALSI is still upwards, although interrupted by declines every so often. In fact, if investors glance at the long-term chart of the ALSI in Figure 1B below, it becomes apparent that the last 12 months is just a blip compared to the long-term history of the market.

Figure 1B: FTSE/JSE All Share Index TR: monthly from July 1995 to March 2020 (log scale)

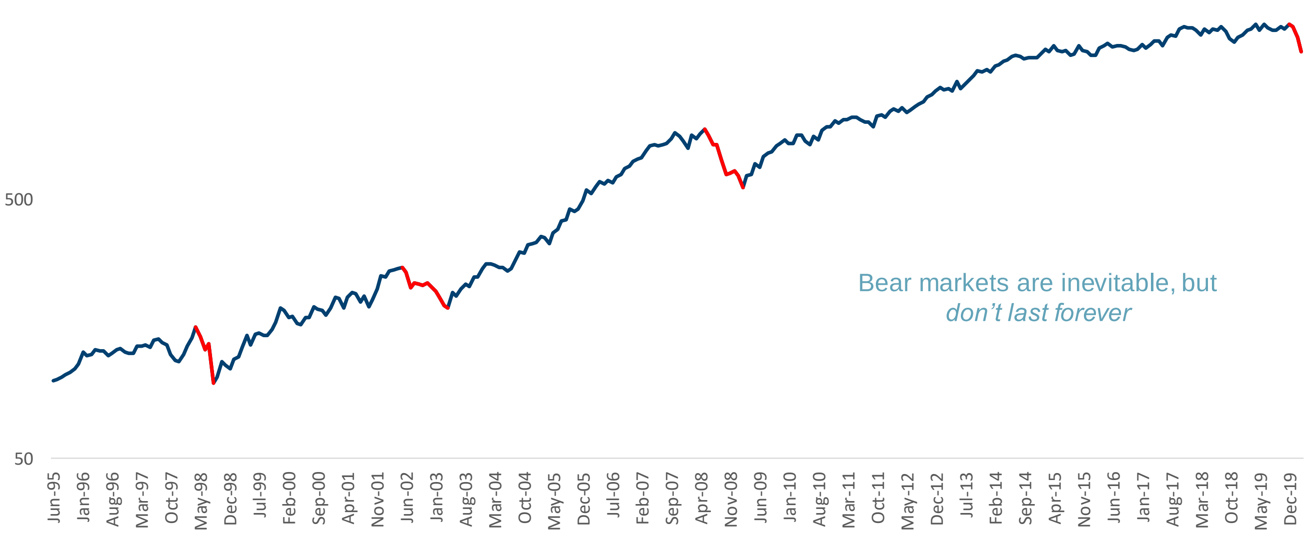


Bear markets are inevitable – historically, markets have rallied in the subsequent 1, 3 and 5 years thereafter…stay invested

Bear markets are a fact of life; and are usually followed by bull markets. Markets adjust to economic and company news; good and bad and investing in good companies at attractive prices have typically rewarded brave investors in the past.

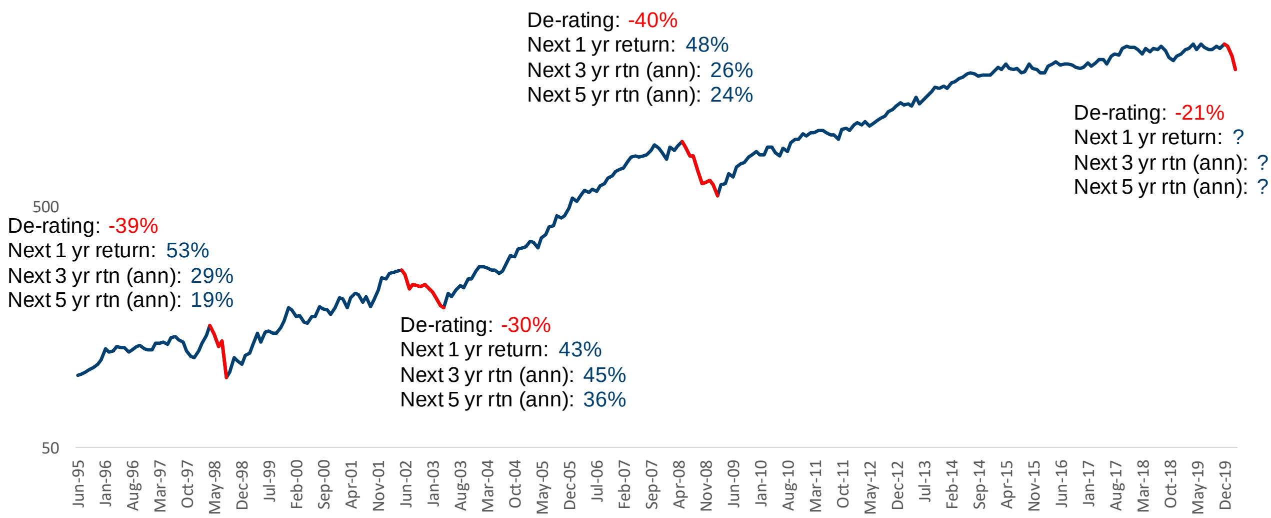
Figure 2A below shows the last four bear markets highlighted in red. It is worth repeating to note the historical upward trend of the market, and the bull markets in blue following the bear markets in red.

Figure 2A: FTSE/JSE All Share Index TR: monthly from July 1995 to March 2020 (log scale)



However, if we dig deeper and start calculating the performance of a specific bear market, as well as the subsequent performance for the following 1, 3 and 5 years after a bear market, we obtain the following results in Figure 2B below:

Figure 2B: FTSE/JSE All Share Index TR: subsequent performance after bear markets

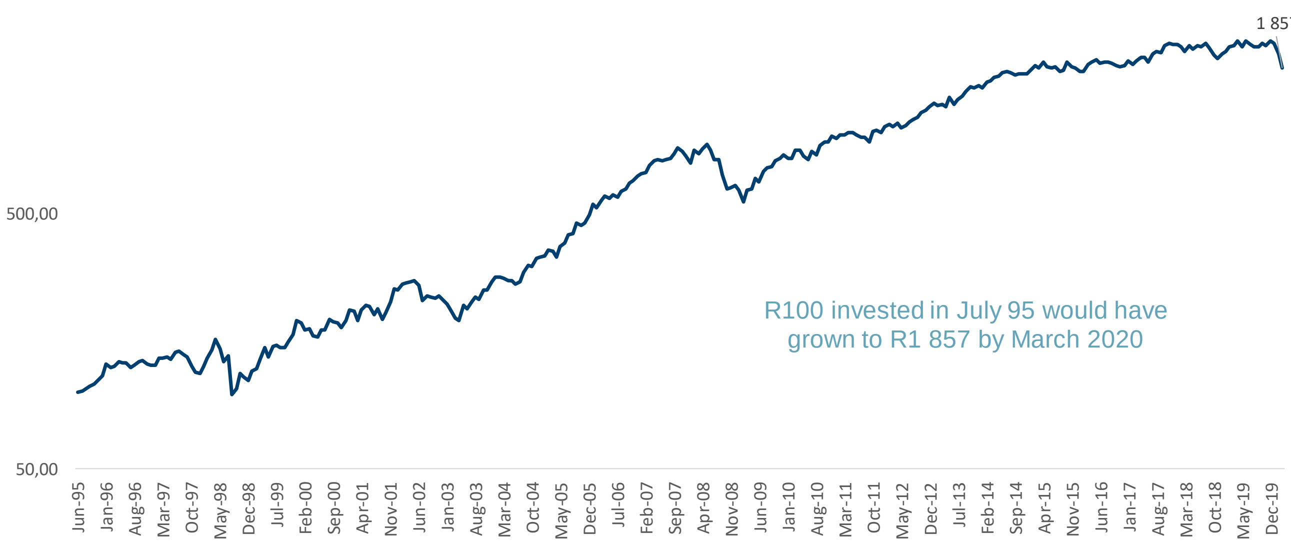


Time in the market is much more important than trying to time the market – missing a few positive months is detrimental to your wealth…stay invested

To be able to gain in the market's long-term performance an investor needs to be invested through all the volatility. If investors give in to the temptation to disinvest as soon as the market goes through a rough patch, they may just miss the crucial number of large positive months typically following a bear market.

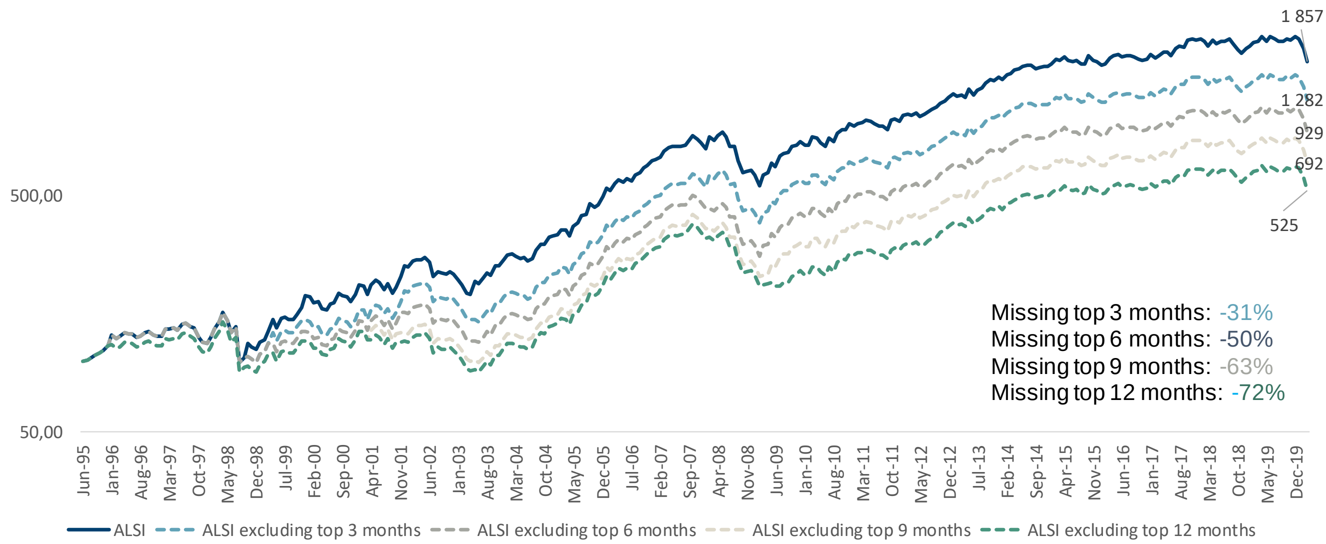
Figure 3A below shows an investor who invested R100 in July 1995 and held on for dear life all the way to March 2020, after which the initial R100 grew to R1 857.

Figure 3A: FTSE/JSE All Share Index TR: monthly from July 1995 to March 2020 (log scale)



Contrast Figure 3A with Figure 3B below – where investors chose to bail out at crucial points in time, missing the best 3, 6, 9 and 12 months in this period.

Figure 3B: FTSE/JSE All Share Index TR: excluding best 3, 6, 9 and 12 months



Missing the best 3 months would have resulted in an end value of R1 282: 31% less than the end value of R1 857 of the buy and hold investor. Missing the top 6, 9 and 12 months would have resulted in 50%, 63% and 72% less than the end value of the buy and hold investor!

When the market is declining, disinvesting and going to cash typically leads to a worse outcome than staying the course…stay invested

Investors may be forgiven to become unnerved in the midst of a market crash, and to flee to the safety of cash. Unfortunately the capitulation point typically happens at the worst time, and many investors stay on the sidelines in cash while the market recovers and reach all-time higher values.

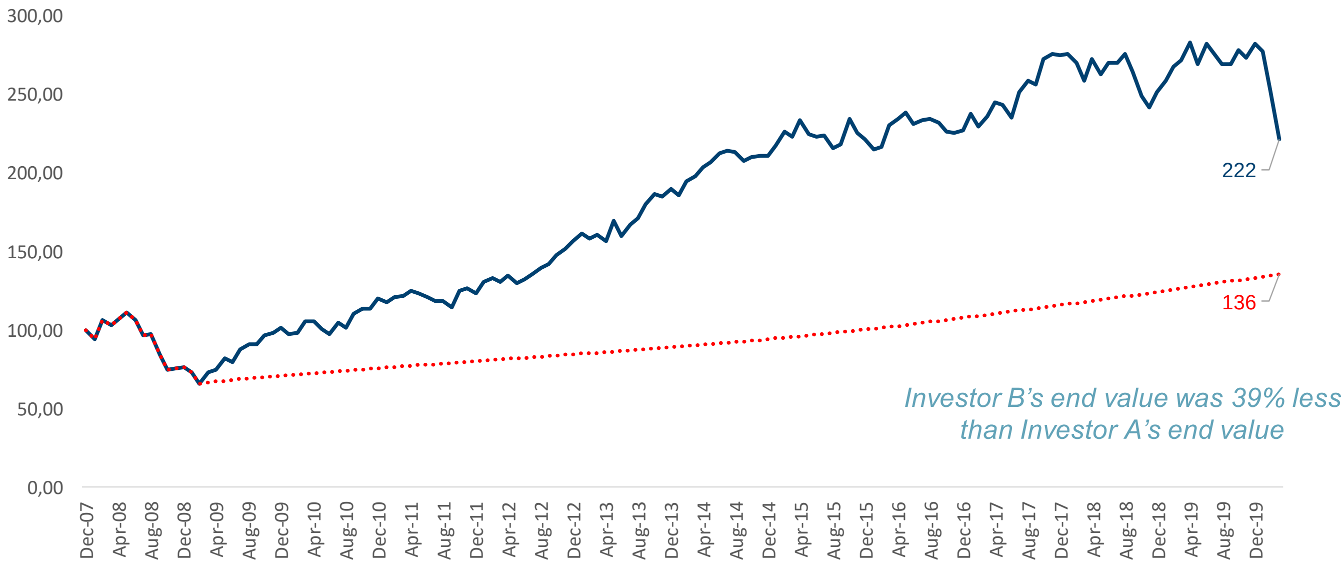
Figure 4A below shows two investors, A and B, who decided to invest R100 in January 2008. Investor A notices the value dwindling to R66.25 in the midst of the crash, but after consulting with his financial advisor decides to stay the course. Investor B experiences the same gut-wrenching experience as Investor A; and decides to bail from the market into the perceived safety of cash.

Figure 4A: Investor A and Investor B both start investing in Jan 2008

Date	Investor A	Investor B
Dec-07	100.00	100.00
Jan-08	94.39	94.39
Feb-08	106.15	106.15
Mar-08	102.92	102.92
Apr-08	107.23	107.23
May-08	111.23	111.23
Jun-08	106.38	106.38
Jul-08	97.10	97.10
Aug-08	97.41	97.41
Sep-08	84.51	84.51
Oct-08	74.67	74.67
Nov-08	75.62	75.62
Dec-08	76.77	76.77
Jan-09	73.50	73.50
Feb-09	66.25	66.25

Contrast Figure 4A with Figure 4B below – Investor A's starting value of R100 compounded to R222 at the end of March 2020, while Investor B's end value was a mere R136 – thus 39% less than Investor A's end value.

Figure 4B: FTSE/JSE All Share Index TR: monthly from July 1995 to Mar 2020 (linear scale)



The market's performance should be judged over relevant time horizons of 5 years and longer – investing is a long-term endeavour…stay invested

When an investor contemplates investing in the equity market, care should be taken to ensure that the investor will not need the investment funds in the short term, say any time period less than 5 years. Why? Investing in the equity market entails taking risk, i.e. investment funds could either lose or gain in value, but typically equity markets reward investors the most of all asset classes over the long-term.

Figure 5A below shows the return per annum of the FTSE/JSE All Share Index for any one-year period between July 1995 and March 2020. Notice that the minimum one-year return was -38%, the average one-year return was 15% and the maximum one-year return was 73% over the last 25 years (approximately). Also note that the probability of a negative return over any one-year period was 19%.

Figure 5A: FTSE/JSE All Share Index TR: rolling 1-year returns from July 1995 to March 2020

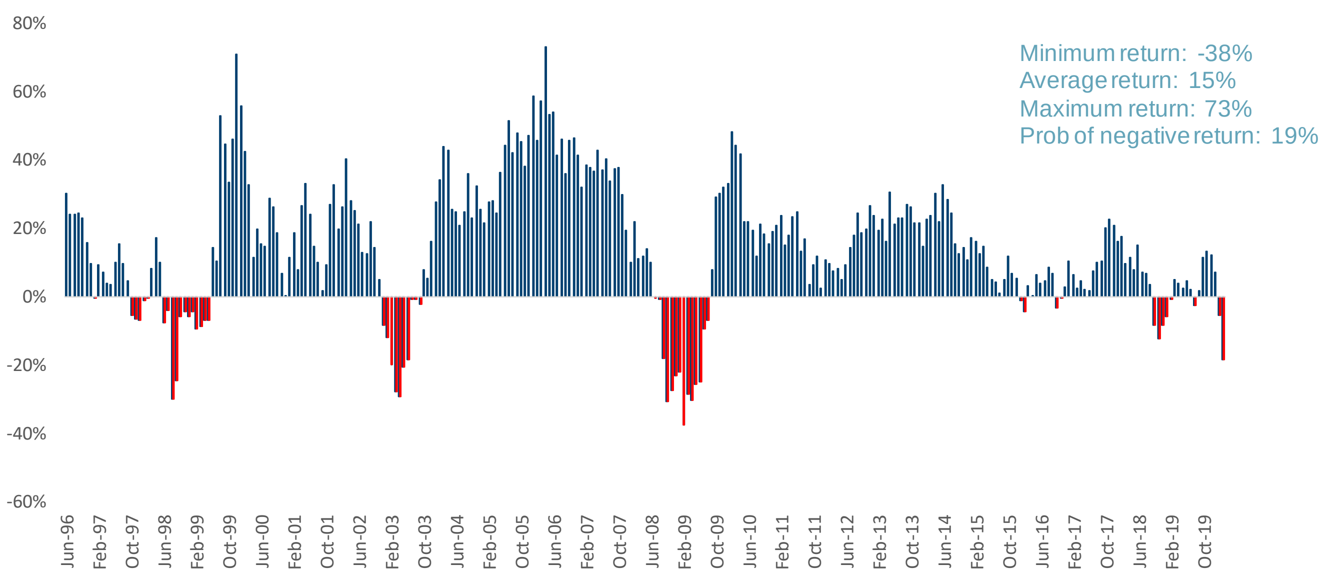


Figure 5B: FTSE/JSE All Share Index TR: rolling 3-year returns from July 1995 to March 2020

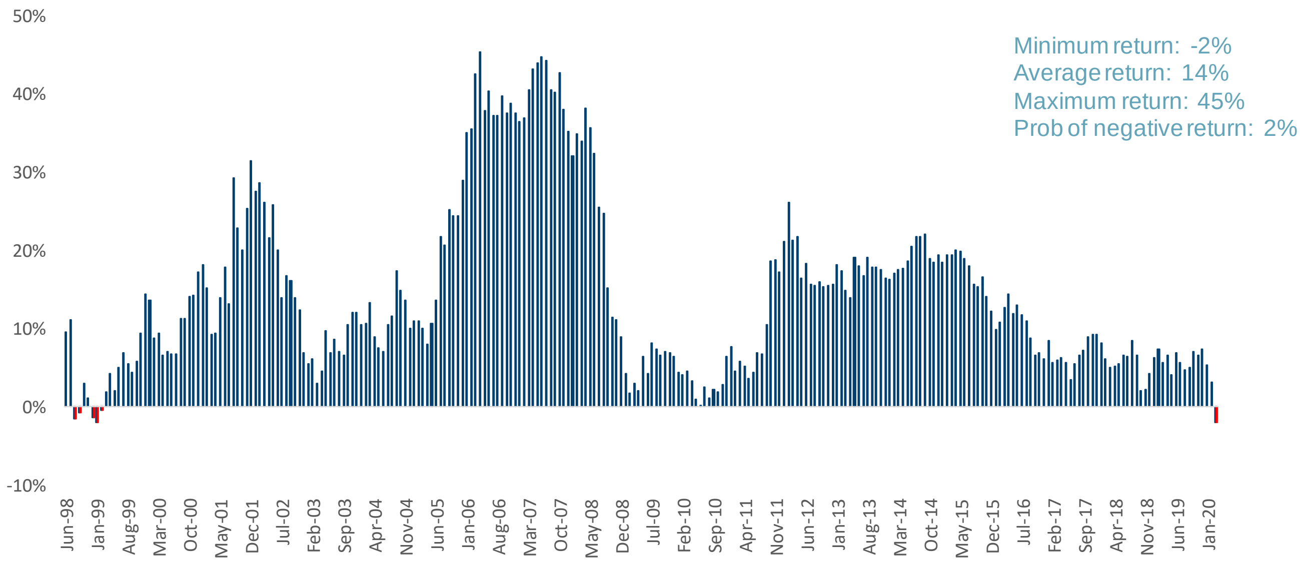
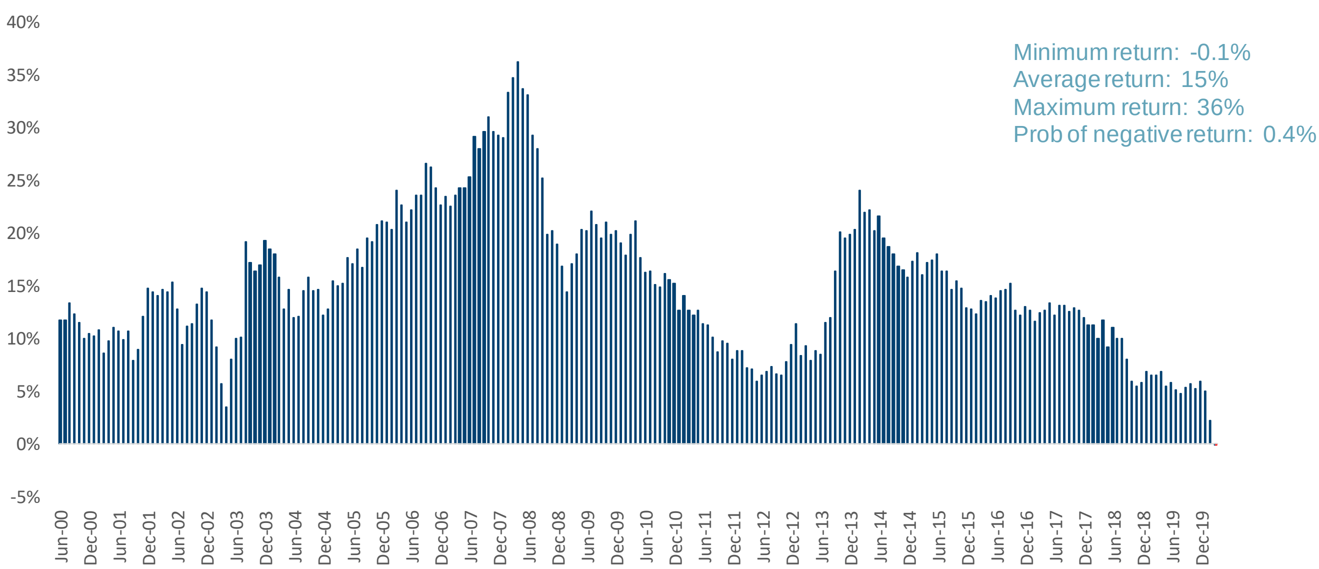


Figure 5B above shows the return per annum of the FTSE/JSE All Share Index for any three-year period between July 1995 and March 2020. Notice that the minimum three-year return was -2%, the average three-year return was 14% and the maximum three-year return was 45% over the last 25 years. Also note that the probability of a negative return over any three-year period was only 2%.

Figure 5C below shows the return per annum of the FTSE/JSE All Share Index for any five-year period between July 1995 and March 2020. Notice that the minimum five-year return was -0.1%, the average five-year return was 15% and the maximum five-year return was 36% over the last 25 years. Also note that the probability of a negative return over any five-year period was only 0.4%!

Figure 5C: FTSE/JSE All Share Index TR: rolling 5-year returns from July 1995 to March 2020



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Encourage clients to stay invested, by emphasising:

- Don't focus on short-term market noise – rather keep the long-term picture of the market in mind.
- Historically, after a decline the market typically rallied the subsequent 1, 3 and 5 years.
- Time in the market is much more important than trying to time the market – missing a few positive months is detrimental to your wealth.
- When the market is declining, disinvesting and fleeing to cash typically leads to a worse outcome than staying the course.
- The market's performance should be judged over relevant time horizons of 5 years and longer.

Remind clients that they are not 100% exposed to the market, and emphasise that portfolio solutions are constructed using diversified combinations of asset classes and fund managers with differentiated investment styles - this should ensure a more consistent return profile over time.

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