# Invest now or sit in cash?

**Are you worried about investing now or adding more money to your portfolio?**
It's normal to feel nervous about investing whilst markets remain so volatile.

Global equity markets are down 11.5% this year* and it's been a volatile year so far. At one point global equity markets were down almost 16% - but of course, markets don't work in a linear manner and we've seen a few 'ups' and a lot of 'downs' in markets this year. This environment shakes your confidence as an investor and you may decide not to add more money into investment markets.

Back on 26th March 2008, markets had dropped 12.1% from their peak in October 2007. Again markets had had a few 'ups' and many 'downs' by the end of March 2008. With the benefit of hindsight we know what happened over the following year and over the following decade, but what if we were back in March 2008 and didn't know what was coming? Would you have added to your portfolio then?

We test out three scenarios with a £100,000 investment to see what happened. All investors have a 7-year investment horizon.

- **Investor A** invests the full amount on 26th March 2008
- **Investor B** decides to set up a monthly savings plan and invest this £100,000 across a two year period.
- **Investor C** decides that markets are too volatile and that they would rather sit in cash for some time and then invest in markets when confidence is restored (we've assumed two years later to be consistent with Investor B's timeframes).

## What were the results?

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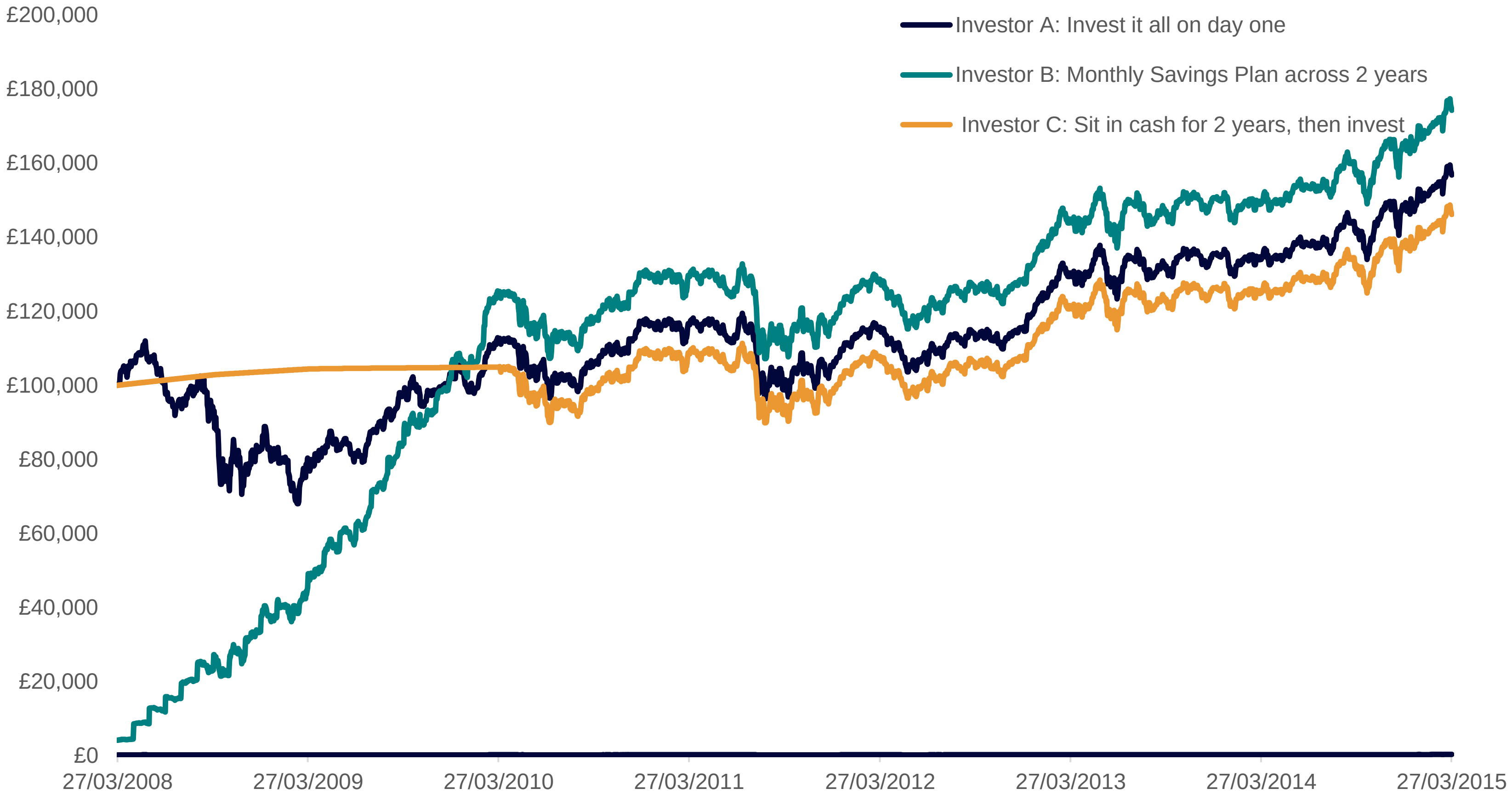
*MSCI ACWI Index in GBP YTD to end September 2022. Source: Bloomberg

# The Results




**Investor A** experienced volatility in the early part of their investment journeys. But markets recovered well within the time of their investment horizon. At the end of the 7 years, their £100,000 portfolio had grown to **£156,781.**

**Investor B** had a smooth return profile to begin with because they got the benefits of 'pound-cost averaging'. As markets became cheaper, they were adding to their investments, thereby accessing investments at a cheaper price. Over the long-term, Investor B had the best outcome because they did not try to guess when was best to invest in the market. Their portfolio had grown to **£174,295.**

**Investor C** didn't experience the initial volatility in market but also missed out on the initial parts of the recovery. They did eventually invest and their portfolio grew in size, but it was worth **£146,135**, considerably less than the portfolios of investors A and B.

Source: Bloomberg. Assumes entire portfolio has been invested in MSCI All Countries World Index in GBP. Investor B divided their £100,000 investments equally across 24 months. No interest was earned on any cash not invested. Investor C earned interest on their cash in the first 2 years, using the GBP Overnight Deposit Rate, then fully investing the £100,000 plus the interest earned on 27th March 2010.

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# Of course, we've made a lot of assumptions!

- Firstly, it's important to highlight that past performance is no guide to future returns. The journey experience by the three investors in 2008-2015 is not indicative of what investors could expect in the future.
- We've assumed, for simplicity, that Investor B wasn't earning any interest on the amount that they hadn't invested. In reality, Investor B would have also earned interest on non-invested cash (similar to Investor C) which would have boosted their total return.
- In March 2008, the Overnight Deposit Rate* (the interest earned on cash) was 5.55%. As of 30th September 2022, the Overnight Deposit Rate stood at 2.35% - we simply aren't getting the high levels of interest that were prevalent at the start of the Global Financial Crisis.
- Nobody knows how long the current market downturn will last but history tells us that the average bear market (when markets fall 20% from their peak) lasts less than a year, but the average bull market (when markets recover 20% from their lows lasts almost 4 years. Trying to time when is the right time to invest can be a difficult and costly decision.
- At a time of heightened market volatility like the one we are experiencing, a strategy of adding to your portfolio through a regular investment plan (i.e. drip-feeding your cash into the market) can be an effective way of adding to your portfolios whilst removing any potential difficult decisions.
- When deciding when and how to invest, it is important you discuss your investment options with your financial adviser.

*Source: Bloomberg

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