Lynn Bolin
Head of Communications and Media

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One key to investment success: Staying in the market

If you are at all interested in money and investing, you are likely to have heard the refrains: "stay in the market" or "don't time the market", which advise investors to keep invested in the equity market when it's going through a turbulent period or even a sharp downturn.

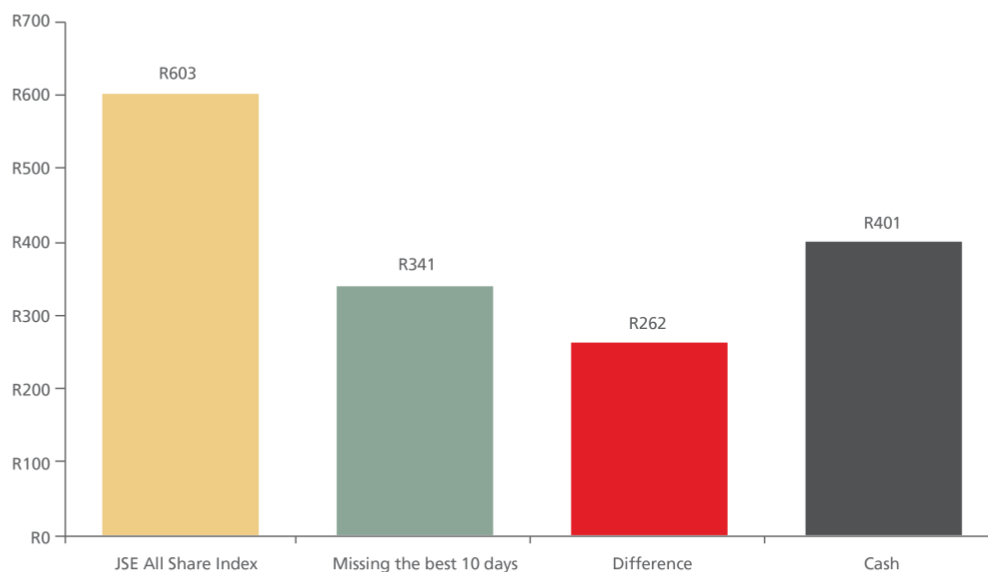
For those who are skeptics or haven't had much investing experience, you might think this advice is simply a ruse used by self-interested financial advisers or investment managers who stand to lose if you do decide to sell down your equity exposure and sit out a market slump in cash. However, in reality this advice on staying invested is very sound, borne out by the facts we can see when we look at the market's behaviour over time. It is one of the keys to investment success.

Humans naturally want to avoid losses

When we see the stock market (and especially our own investment portfolio) falling in value, normal human behaviour makes us want

to avoid losses by moving away from equities as fast as we can, and take shelter in “safer” investments like cash, especially when we think there could be further losses ahead. However, if you do this, although you will miss out on any further market downside going forward, you are also very likely to miss out on any rebounds – no one is able to predict when or if these rebounds will happen. Not only do you lock in your losses by selling low when you reduce your equity exposure, but you also damage the longer-term growth potential of your investments.

Source: Morningstar, Prudential Investment Managers



Source: Morningstar, Prudential Investment Managers

Missing out on best 10 days leaves you with 43% less

The red dots in the graph below show the best 10 days of return performance of the SA equity market (the FTSE/JSE All Share Index) over the past roughly 19 years, from February 2000 until December 2018. Ironically, all but one of them occurred between January 2008 and March 2009, during the steep market fall resulting from the Global Financial Crisis: strong rebounds followed some of the worst losses on our market. So anyone who had low or no equity exposure during this volatile period would have missed out on the down days, but would also have missed out on the best days, and the negative impact on their long-term portfolio performance would have been severe.

During this 19-year period, investors who stayed consistently invested in the FTSE/JSE All Share Index would have received R603 from their R100 investment (shown by the gold line and gold bar in the graph), but those who missed the best 10 market days would have received only R341, an astounding 43% less (depicted by the grey line and grey bar). Meanwhile, those who were exposed to cash over the entire period would have earned R401, 33% less than an equity investment (represented by the purple line and bar).

So the next time you feel anxious about equity market losses, be sure to curb your urge to cut your equity exposure. Instead, remember you are invested in equities for their long-term inflation-beating returns and stay invested. If you can’t resist the urge to act, a wise move would be to speak to a financial adviser to see what they suggest. Undoubtedly they will tell you to say put and remind you of your long-term investing goals: a large part of their role is to keep you from making crucial mistakes on the long road to building up your investments.

To find out more, contact your Financial Adviser or our client services team on **0860 105 775** or email us at query@prudential.co.za.

https://www.prudential.co.za/insights/articlesreleases/one-key-to-investment-success-staying-in-the-market/