Prudential Investment Managers

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Should I winter-proof my investment?

What's the best way to plan your investment strategy for the winter? Despite the cold, hard fact that investing is a long-term game, there are those who believe that there's some value in paying attention to the seasons when planning their investments. We explore where this idea comes from and if there are any merits to investing according to the seasons.

There's a saying among northern hemisphere investors, which goes: "Sell in May and go away." This is based on the belief that stocks perform weaker in their summer (May to October) and stronger in their winter (November to April). It follows, then, that you should sell stocks in spring (before the summer) and buy again in autumn (before the winter). This theory found some support following a global study conducted in 2002, which suggested that the "Sell in May and go away" strategy worked in 36 of the 37 developed and emerging markets being monitored.

Surely then the theory must be true? Well… it's not. Research conducted more recently in 2015 found the opposite to be true. The paper concluded that American and Canadian investors were more likely to sell in autumn and buy in spring. While the research found that changes in the seasons had a “significant and substantial” effect on the cycle of stock returns, they believed this was caused more by seasonally-affected fluctuations in optimism among investors.

So what does this mean for you as an investor? The reality is that there are a number of theories out there, each claiming to know exactly when the best time is to buy or sell. The difficult part is knowing who to listen to and what to do. But if you’re smart about your approach to investing, the best course of action is simply to ignore the noise and stick to your long-term plan.

Which brings us to one of the main benefits of investing in unit trusts, especially multi-asset funds (like the Prudential Balanced Fund) which can hold a range of different asset classes. Because these funds are actively managed and backed by teams of highly trained investment professionals, your chosen fund manager can make the appropriate ‘buy-sell’ decisions for you as markets move so that you don’t have to. And because these decisions are made on the basis of fundamental analysis and rigorous research, you can rest assured knowing that your investment is made up of the right mix of assets, each chosen for their long-term growth potential and their ability to protect your investment from unnecessary risk.

Choosing the right fund manager with a sound long-term track record that you can trust, is key to this process. Understandably, you may go through periods of underperformance, where you might questions whether or not your fund is still holding the right assets for you. But it’s important to remember that performance doesn’t come in a straight line, and as mentioned in our opening paragraph, investing is a long-term game… so try not to focus too much on the short term. As the adage goes, unless your investment goals change… neither should your investment.

To find out more about Prudential, speak to your financial adviser or contact our Client Services Team on 0860 105 775 or at query@prudential.co.za.