PRUDENTIAL
INVESTMENT MANAGERS

Prudential Investment Managers
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Hindsight is 20/20

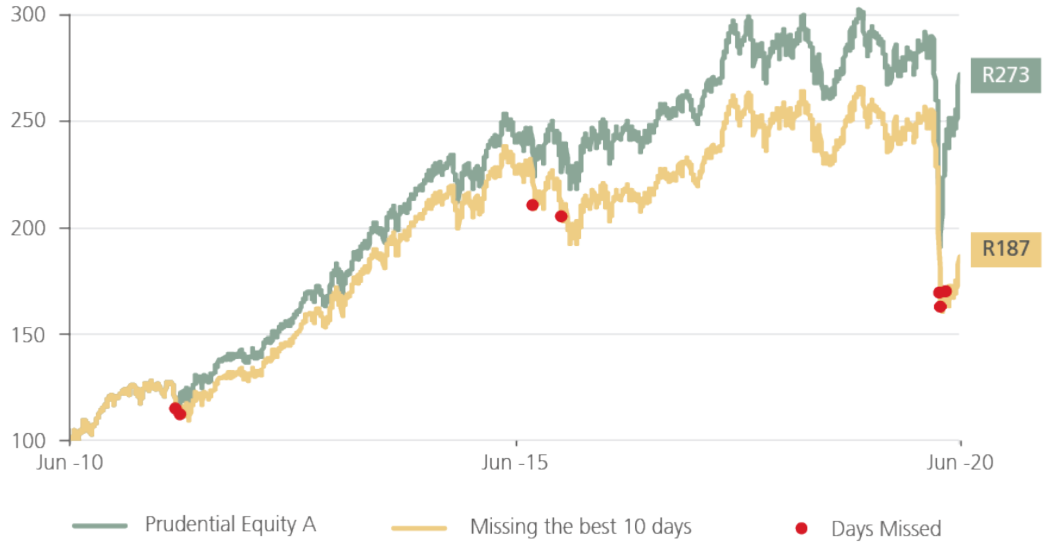
If you look back at previous market downturns, there's a common mistake among inexperienced investors. When the going got tough, most of them disinvested or dumped their risky assets and ran to cash. They did it in an attempt to protect their investments from short-term volatility. The trouble is, in doing so they invariably ended up missing out on the market recovery. Basically, they got the timing wrong… and that likely had a seriously negative long-term impact on their investment.

Timing the market is never a good idea. To get it right, you have to sell at exactly the right time (the top of the market) and re-enter the market later, again, at exactly the right time (the bottom of the market). History shows that most people wait until it's too late to come back. They'll hold out until they have sufficient evidence of a market improvement – and in doing so, they often miss out on the market's best days (or weeks).

Missing the 10 best days

Graph 1 shows the value of a R100 investment in the Prudential Equity Fund (A Class) over a 10-year period (to June 2020). The yellow line represents the difference in returns if you'd missed the 10 best-returning days over that period. It's worth pointing out that those 10 best days happened in the middle of a downward cycle – at exactly the time when many investors were looking to get out of the market! Those are the toughest times to invest.

Graph 1



Source: Morningstar as at June 2020

Missing the 10 best weeks

But let's say you waited even longer, until you were absolutely sure that the market downturn was over, the dust had settled, and it was safe to go back into equities. Graph 2 shows the impact of missing out on the best 10 weeks of returns in the Prudential Equity Fund (A Class) over the past 10 years ending June 2020.

Graph 2

Source: Morningstar as at June 2020

Over that period, investors who stayed consistently invested in the Fund would have received R270 from a R100 investment (as shown by the green line); those who missed the best 10 weeks, meanwhile, would have received only R160 (represented by the yellow line). That’s a 68% difference in total returns!

History lessons for investors

History has taught us a few things about market volatility. For one, markets can recover very quickly from shocks. Secondly, if you try to time the market you run the expensive risk of losing out on the recovery. And thirdly, there’s tremendous value in staying invested, focussing on the long term, and riding out the short-term volatility.

As the old saying goes, those who don’t learn from history are doomed to repeat it. Would you really want to repeat the mistake of missing out on the best days – or weeks – in the market? Professional investors like Prudential have learned the lesson well are able to make the right decisions when conditions get tough. That’s how they make market-beating returns for their clients.

To find out more about investing with Prudential, contact our Client Services Team on 0860 105 775 or email us at query@prudential.co.za.