AAM Advisory

Investing through volatile times

Anyone who follows the news knows that the world's economies are going through a prolonged spell of volatility. It's natural at these times for some investors to have concerns.

The truth is that share prices invariably rise and fall but, for the long-term investor, this shouldn't need to be the primary concern. Historically, long-term performance tends to even things out and there are even good reasons to see opportunity when markets are more volatile. Below are our top six investment principles for you to keep in mind when times are uncertain and markets are fluctuating.

Please speak to a wealth manager before making a decision to invest.

Six principles of investing

1 Have a plan and stick to it

It is one thing to have a target, but a sound financial plan can be the difference between simply hoping for the best and actually achieving your goals.

You can review your plan regularly with your wealth manager and make adjustments when necessary, but staying focused on your plan will help you to not be distracted by short-term market uncertainty.

2 Think twice before putting your money in cash

Putting your money in cash can seem appealing as a safe and secure option – but inflation is likely to eat away at your savings. For most people with longer-term investment plans, cash needs to be supplemented with investment in other asset classes that can beat the perils of inflation and offer better capital growth potential.

3 Diversify and always consider your investments as a whole

When markets are fluctuating, it's all too easy to worry about the performance of certain investments while forgetting about the bigger picture.

But when one asset class is performing poorly, others may be flourishing in the same market conditions. A diversified portfolio, including a range of different assets, can help to iron out the ups and downs and avoid exposing your portfolio to undue risk.

4 Start investing early if you can

As a general rule, the earlier in life you start investing, the better your chances of long-term growth.

Compound growth (the ability to grow an investment by reinvesting the earnings) is a powerful force but it takes time to deliver. The right time to invest is when you and your wealth manager have formulated a clear financial plan that requires growth.

5 Invest for the long term

Many people suffer from what behaviourists call 'activity bias': the urge to 'just do something' in a crisis, whether the action will be helpful or not.

When investments are falling in value, it can be tempting to abandon your plans and sell them - but this can be damaging because you won't be able to benefit from any recovery in prices. Markets go through cycles, and it's important to accept that there will be good and bad years. Short-term dips in the market tend to be smoothed out over the long term, increasing the potential for healthy returns.

6 Always take professional financial advice

Every single investor's needs are different and, while the points above are good general tips, there's no substitute for a plan that's tailored specifically for you.

What's more, in volatile times, advice can help you take the emotion out of investing and provide an objective view. It may just be the best investment you ever make.

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Important information

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