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MarkReynolds Financial Solutions

Discipline may be the best defence in a downturn

Investing in the stock market has been a prudent long-term strategy for many investors, but market turbulence can still be hard to stomach.

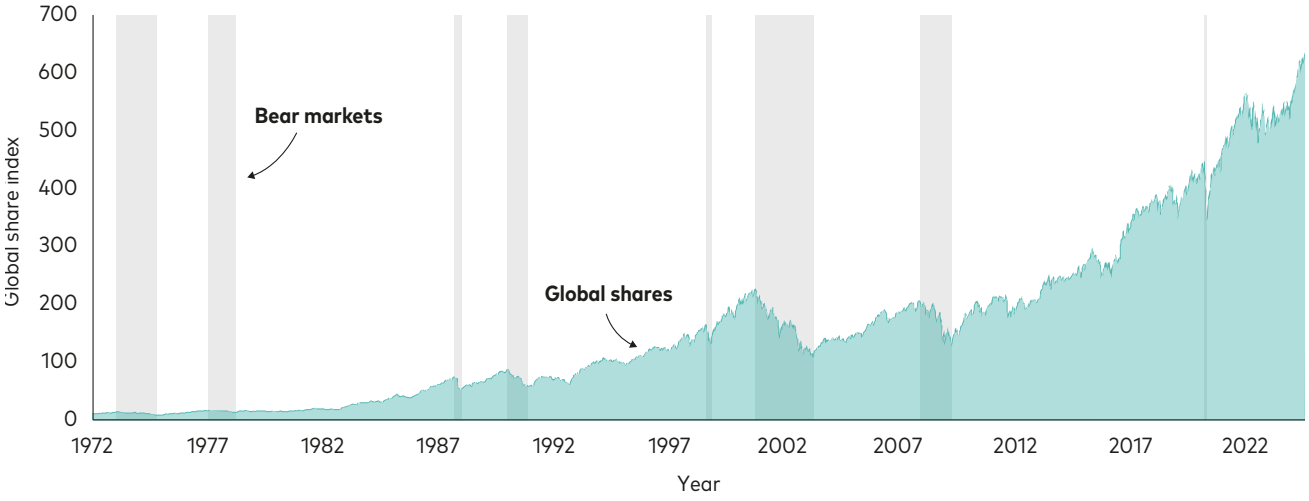
Remember, though, that market dips are not unusual and you are likely to experience many in your investing lifetime. With that in mind, here are some tips for navigating choppy markets.

Bear markets are a part of life; keep a long-term focus

Since 1972, the MSCI World Index, which is an index comprising global shares, has experienced eight bear markets. A bear market is defined as a fall of more than 20% from the index's most recent high (the grey shaded areas in the chart). But history has shown that shares typically post strong results over the long term (10 years or more).

When markets fall, it's important to consider staying invested so that you can participate in the recoveries that typically follow.

Downturns aren't rare events



Past performance is not a reliable indicator of future results.

Notes: The chart shows the MSCI World Price Index from 1 January 1972 to 31 December 1987 and the MSCI AC World Price Index thereafter. The grey shaded areas represent bear markets, defined as price decreases of more than 20% from the most recent high.

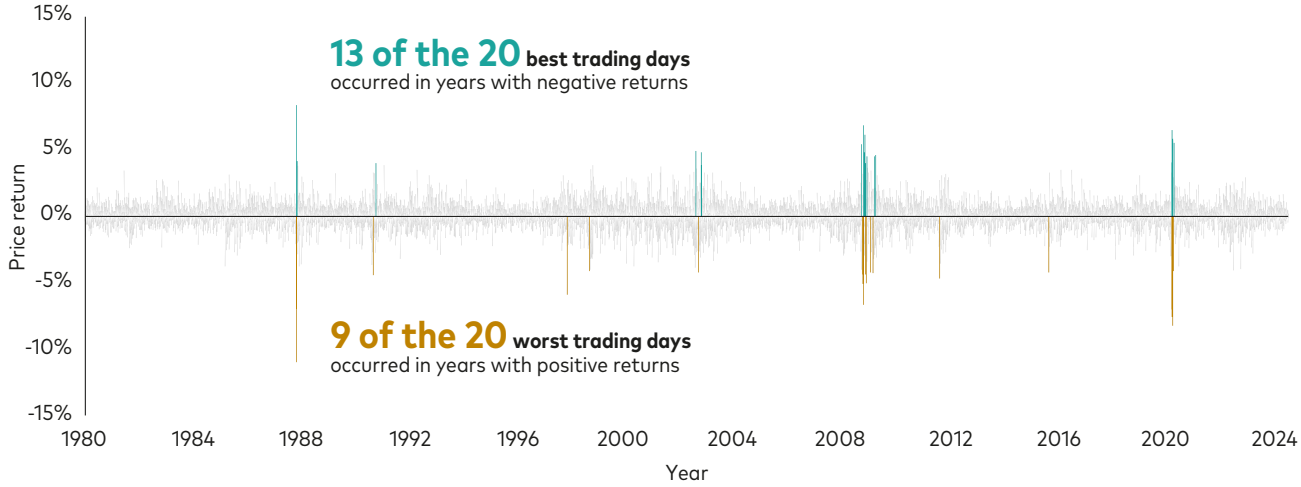
Source: Vanguard calculations in GBP, based on data from Refinitiv, as at 3 July 2024.

Timing the market is futile

One reason investors shouldn't try to time the market is that they run the risk of missing out on strong performance, which can seriously hamper long-term investment success.

Historically, the best and worst trading days have tended to occur close together, often during periods of heightened market uncertainty. In the chart below, the gold bars, which represent the 20 worst trading days, look like mirror images of the green bars, which signify the best trading days. The proximity of these events makes the prospect of successfully timing the market almost impossible.

The best and worst trading days happen close together



Past performance is not a reliable indicator of future results.

Notes: The chart shows daily returns of the MSCI World Price Index from 1 January 1980 to 31 December 1987 and the MSCI AC World Price Index thereafter. The green bars highlight the 20 best trading days since 1 January 1980 and the gold bars highlight the 20 worst trading days since 1 January 1980.

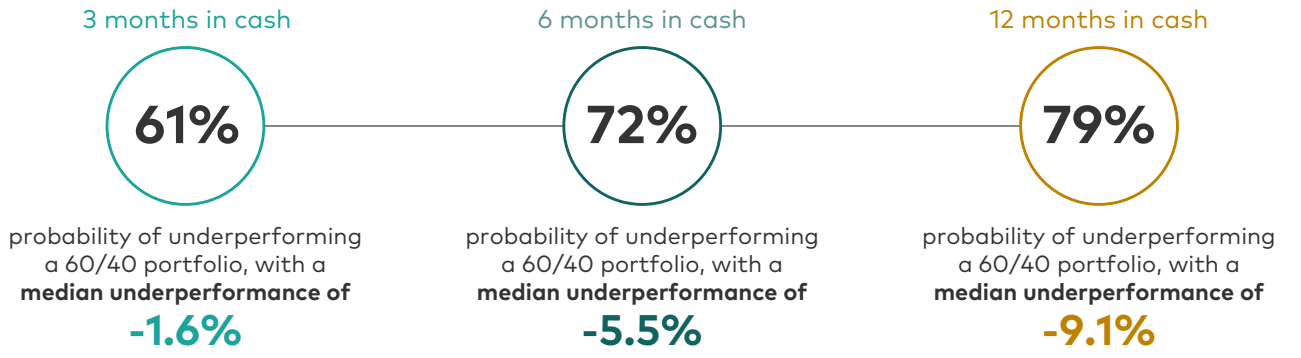
Source: Vanguard calculations in GBP, based on data from Refinitiv, as at 3 July 2024.

Don't panic during market turmoil

Investors who sell their investments and switch to cash during stock market downturns have typically underperformed those who remain invested.

As the chart below shows, the longer you are out of the market, the worse that underperformance tends to be. For example, an investor who switches to cash for three months has a 61% chance of underperforming someone who remains invested in a balanced portfolio. The average underperformance is -1.6%. If they switch to cash for 12 months, those numbers are 79% and -9.1%, respectively.

The chance of underperforming if you switch investments to cash



Past performance is not a reliable indicator of future results.

Notes: The chart shows the returns of cash versus a global 60% share/40% bond portfolio[1] in 3-, 6-, and 12-month periods after 3-month total returns of global shares were below 5%. Shares are represented by the MSCI AC World Total Return Index. Bonds are represented by the Bloomberg Global Aggregate Bond Index Sterling Hedged. Cash is represented by Sterling 3-Months Deposits, which mirrors what an individual could get in a 3-month fixed-rate savings account. Data is based on the period between 31 January 1990 and 30 June 2024.

Source: Vanguard calculations in GBP, based on data from Refinitiv, as at 30 June 2024.

What you can do when volatility hits

Here are some simple steps to help you avoid overreacting to short-term downturns and position yourself for long-term success:

Tune out the noise

There's an old adage that you should never check your portfolio when stock markets are falling. It's a wise recommendation. As the charts above show, making a hasty decision could mean your investments underperform and you don't meet your investment goals.

Control what you can: costs

Fees eat into your investment returns. This is particularly painful when stock markets are falling.

Set realistic expectations

Historical return averages are simply that – averages. The average will be made up of good and bad years – that's what investing is.

Stay diversified

One way to insulate your portfolio is to blend shares and bonds[1] in a way that suits your attitude to risk and goals. Bonds have historically helped to stabilise portfolios during stock market downturns. By having a broad spread of investments across global markets, you can benefit from investments that may perform well when others are falling.

1 Bonds are a type of loan issued by governments or companies, which typically pay a fixed amount of interest and return the capital at the end of the term.

Expiry date: 13th August 2025

Investment risk information

The value of investments, and the income from them, may fall or rise and investors may get back less than they invested.

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