Appendix

Market Timing

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Many investors get worried from time to time about predictions of investment market downturns. The natural question is whether their investments should adopt a defensive strategy to weather the anticipated storm.

This document outlines Plan Money's views on such concerns.

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1. Beware of Expert predictions

Be wary of ‘expert’ opinion in newspaper columns or news headlines predicting doom and gloom. Likewise, journalist opinions. They have newspaper columns to fill and a scary headline will attract a lot of ‘clicks.’

For every accurate prediction of a market shift in any direction, there are a greater number of counter predictions that were wrong. So which source do we believe?

"The only value of stock forecasters is to make fortune-tellers look good."

Warren Buffet, CEO of Berkshire Hathaway.

"Far more money has been lost by investors preparing for corrections,
or trying to anticipate corrections, than has been lost in corrections themselves.”

Peter Lynch investor, mutual fund manager, and philanthropist

2. When to go back in

Knowing when the ideal time is to disinvest is an impossible call, but even if the investor is successful in calling the top of a market cycle, it is even harder to call the bottom of the market, and this is crucial.

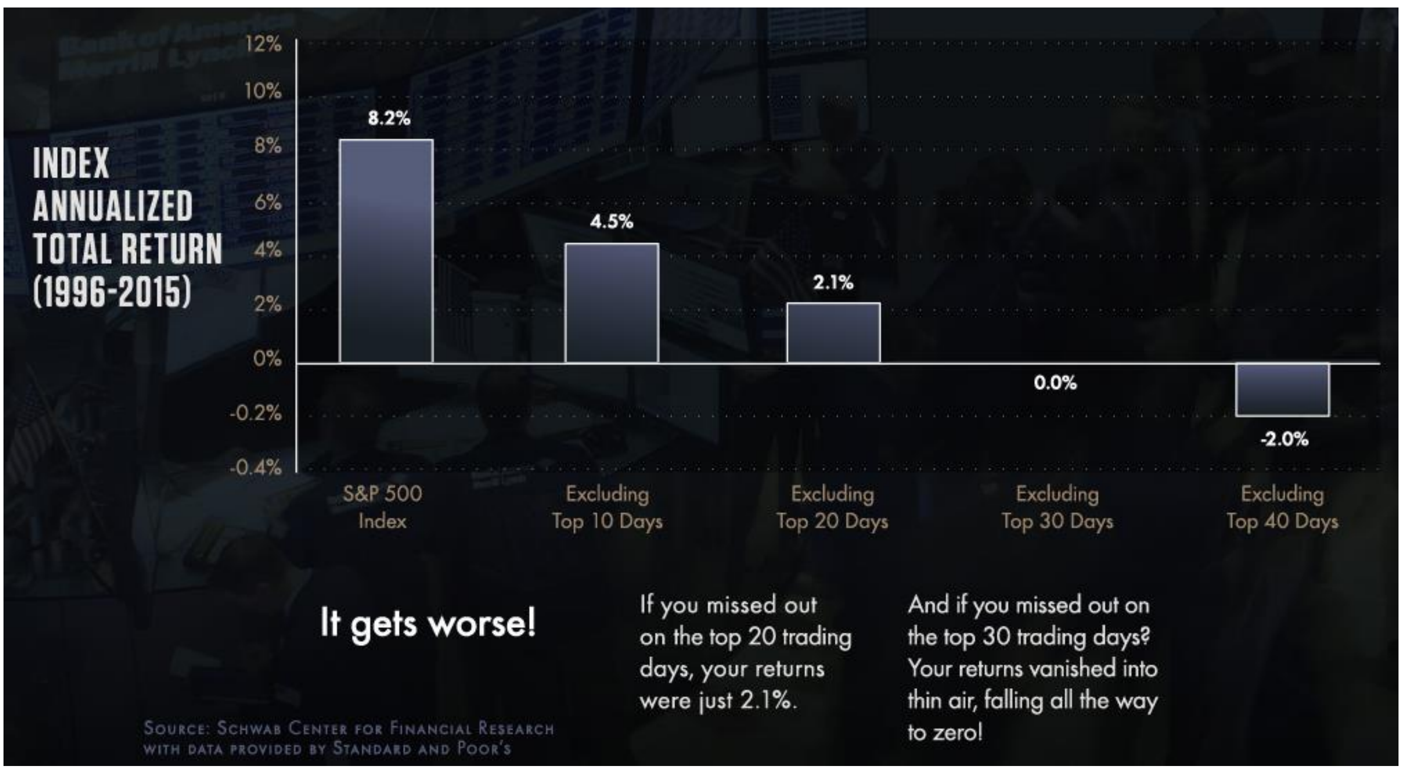
Very often the biggest investment gains come immediately off the back of falls and so timing mistakes of getting back into the market can have a significantly detrimental effect over the long term if the call is proven to be wrong, which it almost certainly will be.

The table below shows falling investment values through the financial crisis of 2008 and what happened should an investor have panicked and moved to cash. They protected themselves from further market falls but then missed a key part of the recovery, and as such had a lower value thereafter.

From 1996 through 2015, the S&P 500 returned an average of 8.2% a year	But if you missed out on the top 10 trading days during those 20 years, your returns dwindled to just 4.5% a year.

Source: Schwab Centre for Financial Research with data provided by Standard & Poor's

We are firm believers in the well-worn investment phrase: **time in the market, not timing the market.** Very few people, professional or otherwise, have the proven ability to make consistently accurate big market-timing calls and even when they do, one bad call can undermine all the good ones.



Source: Schwab Centre for Financial Research with data provided by Standard & Poor's

BEAR MARKETS BECOME BULL MARKETS

The table below shows performance of the S&P 500, 12 months following a bear market

Bear market	12 months following
1990	69%
1987	18%
1981 – 1982	34%
1976 – 1978	22%
1973 – 1974	59%
1968 – 1970	38%
1966	44%
1961 - 1962	32%

Source: The 5 Mistakes Every Investor Makes by Peter Mallouk

3. Market corrections

For more than a century, the market has seen close to one correction per year. (A decline of 10% or more but not more than 20%)

Fewer than 20% of all corrections turn into a bear market. In other words, 80% of corrections are just short breaks in otherwise intact bull markets – meaning that selling early would make you miss the rest of the upward trend. [*7 Facts That Will Free You From the Fear of Stock Market Crashes.* visualcapitalist.com]

Markets are broadly efficient; the stock prices are the aggregate wisdom of the markets – 1000s of traders – where all known information is factored-in.

4. Maintain a strategy

If you have a medium to long-term investment timescale (greater than 5 years) then our general guidance would be to make no changes, take the long-term view, providing that the fundamentals are in place:

Correlated Risk Profile; matching your tolerances and sentiment with the expected investment behaviours

Global diversification and appropriate balance

Low cost

Ensure you have sufficient **capital reserves**

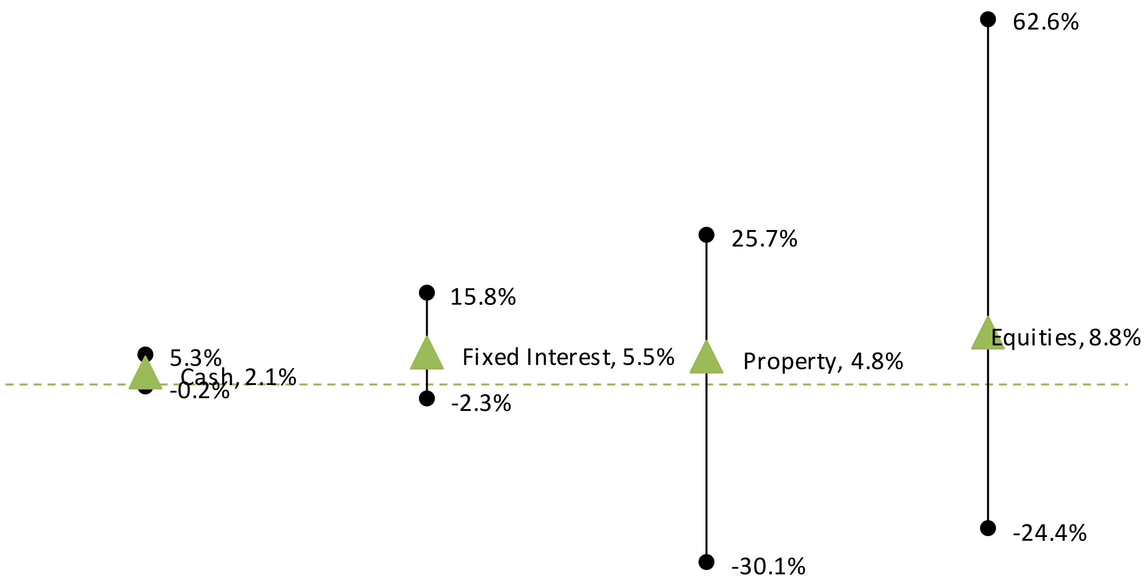
Tax efficiency; utilising available allowances

Viewing investment behaviours over the short-term will also make volatility appear greater than it is when looking at the bigger picture over the long-term and therefore can cause unnecessary anxiety for the investor.

Once the investments are up and running, in most instances it is essential to **stay the course**.

We have analysed data on the performance of different assets classes (Cash, Fixed Interest, Property and Equities) to demonstrate the trade-off between higher average returns over the long term and increased short term volatility.

Average annualised return of each asset class over twenty years to 31/12/2017 and the highest and lowest annual returns over the same period



Source: Global assets, FE Analytics

The chart below compares a Bank deposit account over the past 25 years with an investment in the FTSE World index (i.e. equities).

The biggest risk in the long run is not taking risk?

Source: FE Analytics