THE IMPORTANCE OF REMAINING INVESTED

YOUR GUIDE TO PLANNING INVESTMENT STRATEGIES WITH YOUR FINANCIAL ADVISER AND THE EVIDENCE TO SUGGEST WHY IT'S IMPORTANT TO REMAIN INVESTED DURING TIMES OF VOLITILITY

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INTRODUCTION

As part of the financial advice process, your financial adviser will no doubt speak with you about so-called risk assets, such as stocks and shares (equities), forming part of your long-term investment plan.

They will also discuss with you the risks associated with these assets and how the risks can be mitigated, depending on your tolerance for volatility (the fluctuations in the value of your investments over time).

Alongside this, they will stress that your investment strategy must be 5+ years and, crucially, the importance of sticking to the agreed plan (unless personal circumstances dictate otherwise).

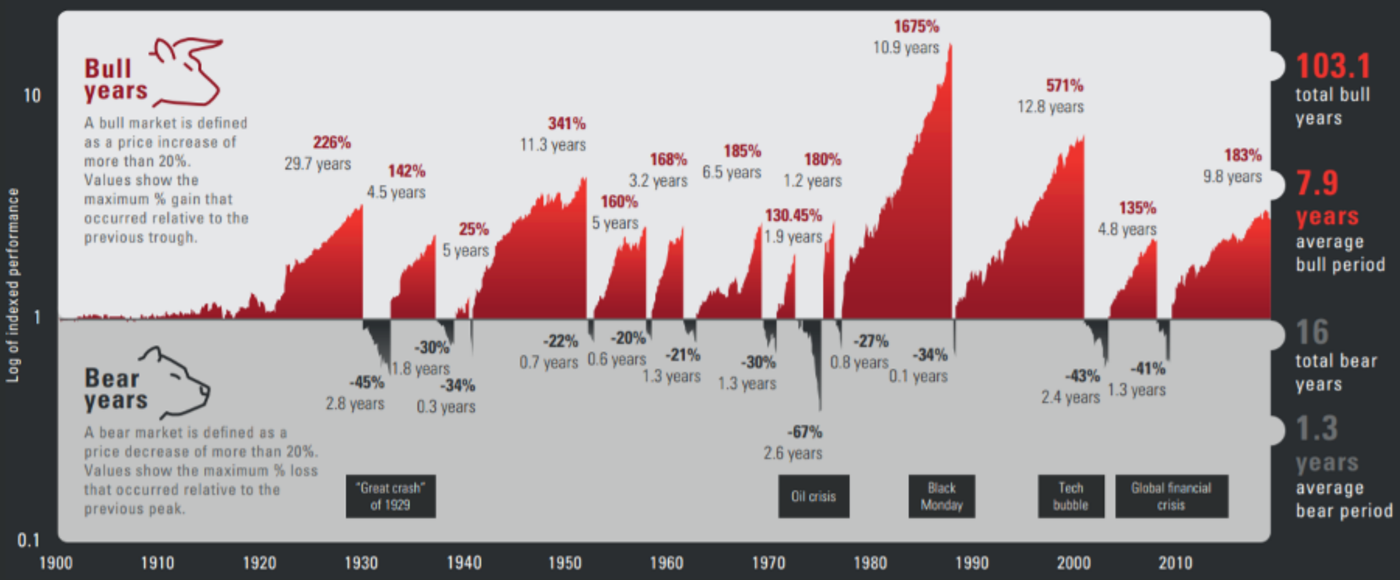
Unfortunately, many private investors, particularly those without an adviser, can sometimes react to stock market volatility at the wrong time – which results in losses being realised.

This document aims to explain how stock markets behave, what drives them, why you should ignore short term volatility and how, by sticking to the plan, your long-term investment objectives can be achieved.

Firstly, we can look at the long-term nature of the stock market in terms of Bull (rising) and Bear (falling) markets over time. As we can see, for the vast majority of time, stock market returns are positive, but there are a few occasions where they are significantly negative.

Fortunately, however, these periods of negative returns are relatively short lived i.e., 1.1 years on average, so can be ridden out by sitting still. This is the reason why your investment plan is a 3-5 year one. Still, the extent of these falls can still be uncomfortable for many people, leading to them selling out at the wrong time, so we will look next at how the impact of these falls can be reduced.

LONG TERM STOCK MARKET RETURNS - BEAR V BULL



Notes: Calculations are based on FTSE All Share (GBP TR). A bear (bull) market is defined as a price decrease (increase) of more than 20% relative to a previous peak (trough). The plotted areas depict the losses (gains) from a previous peak (trough) to the following trough (peak). Time period: 31/12/1945 to 31/12/2020. Calculations based on month-end data. Logarithmic scale on y axis.

Source: Global Financial Data and Bloomberg.

Past performance is not a reliable indicator of future results. The value of investments, and the income from them may fall or rise and investors may get back less than they invested.

REDUCING THE IMPACT OF THE FALLS

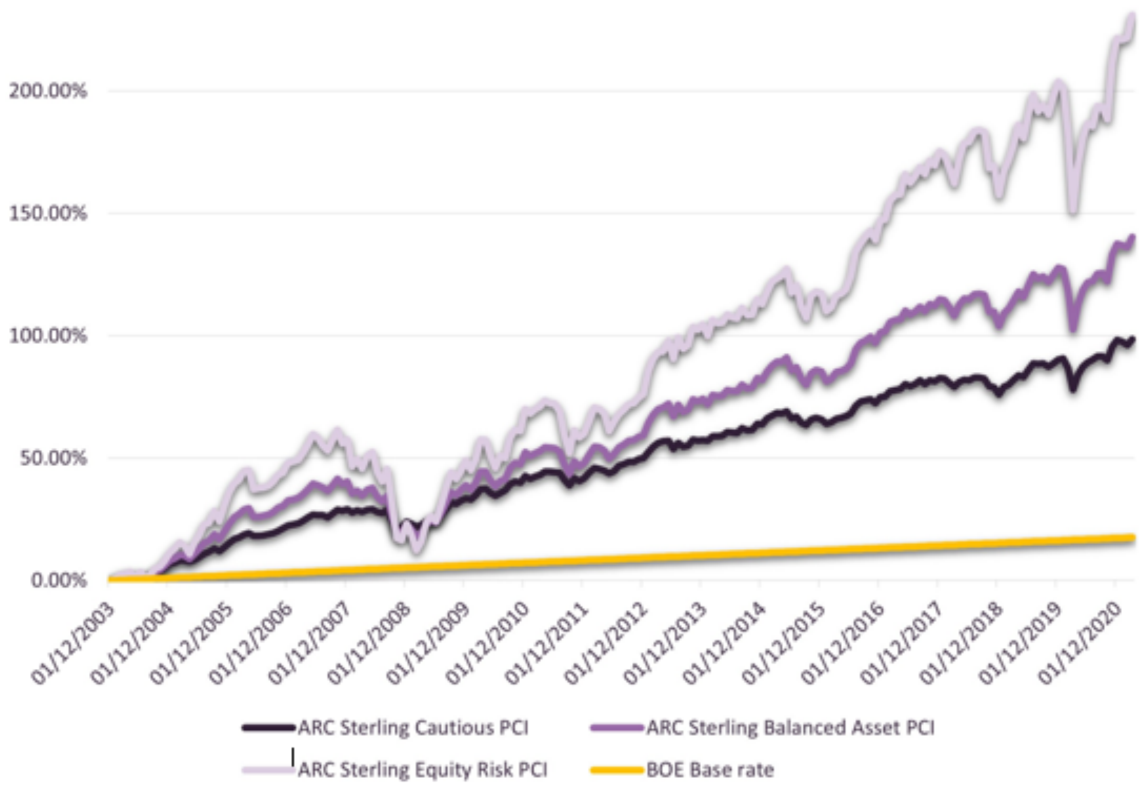
The chart below is just of the UK stock market and does not include any other types of investment. Your adviser will discuss with you the importance of diversifying your portfolio, which means including other, less risky, investments to accompany stock market-based ones. It

must be understood that the level of falls that you are able to tolerate will ultimately have a bearing on the level of returns achieved.

This can be demonstrated by the difference between the returns for three portfolios with differing level of equities:

Equity Risk (80%+ equities), Balanced (40 -60% equities) and Cautious (up to 40% equities).

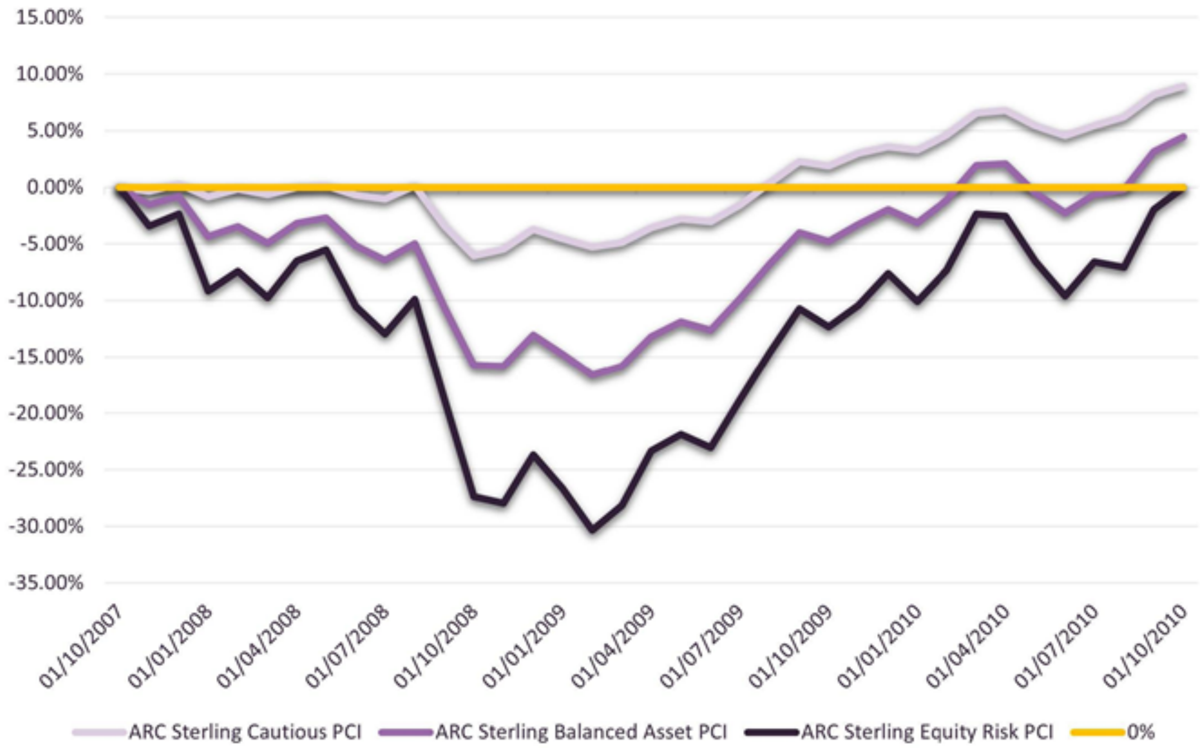
All of them significantly outperform cash, but to differing degrees. The flipside of this, is that the level of negative return during the Great Financial Crisis in 2008/9 (the last sustained Bear market) for the higher risk Equity portfolio is greater than the Cautious.



T H E I M P O R T A N C E O F R E M A I N I N G I N V E S T E D

Looking at the next chart, which shows the unlucky investor who managed to invest at the very top of the market in 2007 (actually quite difficult to achieve), you can see the difference in the extent of level of falls between the 3 portfolios described above. However, note that the extent of the falls is lower for all than those shown over the same time period in the UK stock market chart above. In addition, the lower risk portfolios are quickest to recover their initial value, but they all recover this within around 36 months.

This demonstrates both the importance of agreeing the level of diversification in your portfolio with your adviser in the first instance and sticking with your investment plan over time.



Source: ARC Sterling Cautious PCI, ARC Sterling Balanced Asset PCI, ARC Sterling Equity RiskPCI - Suggestus

Your capital is at risk. The value of your investment (and any income from them) can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investments should be considered over the longer term and should fit in with your overall attitude to risk and financial circumstances.

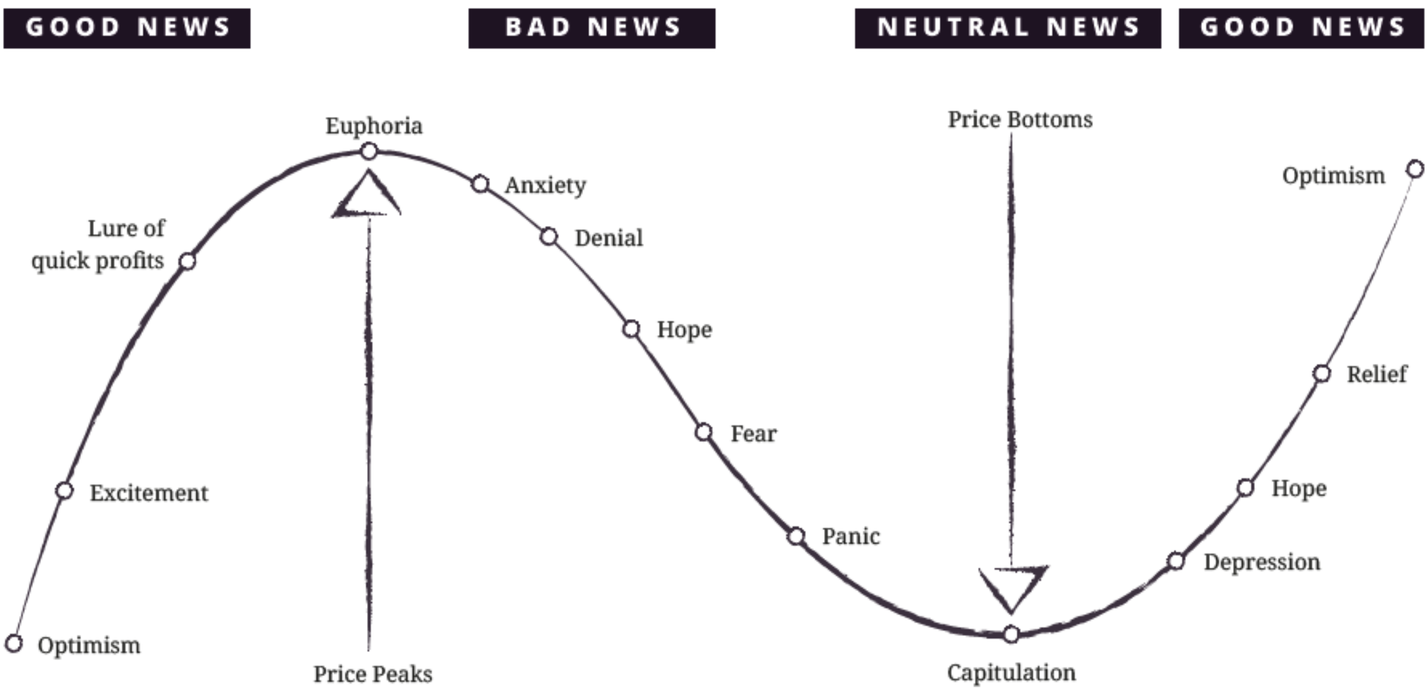
WHY DO PRIVATE INVESTORS TEND TO SELL AT THE BOTTOM?

So, if it is that simple, why are many private investors driven to sell when the market is in a down phase?

The answer is emotions. We are all human and have certain emotional biases hard-wired into our brains. You can see these shown in the chart on the following page , which show the emotions experienced during differing parts of the stock market cycle and which are heavily influenced by the mainstream news.

They can be useful for survival, but not for investing; they cause us to get greedy during the up phases and panic during the down phases.

YOUR EMOTIONS & DECISION-MAKING PROCESSES DURING A STOCK MARKET CYCLE



Professional investors, however, can behave differently to private investors.

This is because they are trained in their field, generally have access better information and, therefore, are better equipped to handle their emotions during the extremes of stock market cycles. Academic evidence* shows that, as a consequence of this and as a general rule, professional investors are selling to private investors towards the top of the market and buying from them when they panic at the bottom.

SO, WHAT IS THE RELEVANCE OF A FINANCIAL ADVISER IN THE CONTEXT OF THE ABOVE?

1. They will make sure that your portfolio matches your tolerance for risk in the first place
2. As professionals, they generally have access to more information sources than their clients
3. They are able to ignore mainstream media ‘noise’
4. They are less emotive in relation to investments as a result
5. Which can help to prevent clients chasing returns in extreme ‘up’ markets……
6. ....as well as stopping them realising losses at the wrong time during ‘down’ markets i.e. helping them to overcome the fear accompanying market falls
7. In summary, they are able to help clients cope psychologically and ‘stick with the plan’!

There is increasing evidence to suggest that, when it comes to assessing the value of your financial adviser, their ability to help you cope with the ups and downs of risk-based investments is one of the most significant contributions to that value**

Rockhold Investments, April 2021

*see Kaufman 2005
**See Vanguard ‘Adviser Alpha’, University of Montreal ‘the value of advice’, et al.

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