RJS WEALTH MANAGEMENT

Markets are Volatile

From time to time, equity markets will experience bouts of volatility due to a variety of reasons. Here are 9 key messages that may be used to stop you making rash moves.

1. Volatility is a normal part of long-term investing

From time to time, there will inevitably be volatility in stock markets as investors react to changes in economic, political and corporate environments. As an investor, your mind-set is critical. When we are prepared at the outset for episodes of volatility on the investing journey, we are less likely to be surprised when they happen, and more likely to react rationally. By having a mind-set that accepts that volatility is an integral part of investing, investors can prepare themselves to take a dispassionate view and remain focused on their long-term investment goals.

2. Over the long term, equity risk is usually rewarded

Equity investors may be rewarded for the extra risk that they face by potentially achieving higher average returns over the longer term compared with, say, bond investors. It is important to remember that risk is not the same as volatility. Asset prices fluctuate more than their intrinsic value as markets over- or under-shoot, so investors can expect price movements to drive opportunity. Over the long term, stock prices are driven by corporate earnings and have generally outperformed other types of investments such as cash and bonds even after allowing for inflation.

3. Market corrections can create attractive opportunities

Corrections are a normal part of bull markets; it is normal to see more than one over the course of a bull market. A stock-market correction can often be a good time to invest in equities as valuations generally become more attractive, giving investors the potential to generate above-average returns when the market rebounds. Some of the worst historical short-term stock market losses were followed by rebounds and breaks to new highs.

4. Avoid stopping and starting investments

Investors who remain invested benefit from a long-term upward market trend. When you try to time the market and stop and start your investments, you run the risk of denting future returns by missing the best recovery days. Missing out on just five of the best performance days in the market can have a significant impact on your longer-term returns.

5. The benefits of regular investing stack up

Irrespective of an investor's time horizon, it makes sense to regularly invest a certain amount of money, for example, each month or quarter. While it doesn't promise a profit or protect against a market downturn, it does help you avoid investing at a single point in time. And although regular saving during a falling market may seem counter-intuitive to investors looking to limit their losses, it is precisely at this time when some of the best investments may be made, because asset prices are lower and will generally benefit from a market rebound. (You should always review your portfolio from time to time and amend it if needed).

6. Diversification of investments helps to smooth returns

Asset allocation may be difficult to perfect as market cycles can be short and subject to bouts of volatility. During volatile markets, leadership can rotate quickly from one sector or market to another. You may spread the risk associated with specific markets or sectors by investing into different investment buckets to reduce the likelihood of concentrated losses. For example, holding a mix of growth assets (equities, property and corporate bonds) and defensive assets (government bonds and cash) in your portfolio may help to smooth returns over time. Spreading investments over different countries can also help to bring down correlations within a portfolio and reduce the impact of market-specific risk.*

7. Invest in quality, income-paying stocks for regular income

Sustainable dividends paid by high-quality cash-generative companies are attractive during volatile market conditions because they can offer a regular source of income when interest rates are low and there are few income-paying alternatives available. High-quality, income-paying stocks tend to be leading brands that can perform robustly throughout business cycles thanks to their established market share, strong pricing power and resilient earnings. These companies typically operate in multiple regions, smoothing out the effects of patchy regional performance. This through-cycle ability to offer attractive total returns makes them a valid cornerstone for any portfolio.

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8. Reinvest income to increase total returns

Reinvested dividends may provide a considerable boost to total returns over time, thanks to the power of compound interest. To achieve an attractive total return you need to be disciplined and patient, with time in the market perhaps the most critical yet underestimated ingredient in the winning formula. Regular dividend payments tend to support share price stability and dividend-paying stocks may compensate for the erosive effects of inflation.

9. Don't be swayed by sweeping sentiment

The popularity of investment themes ebbs and flows – for instance, technology has come full circle after a late 1990s boom and then a 2000s bust. Sentiment on emerging markets tends to wax and wane with the commodity cycle and as economic growth slows in key economies like China. As country- and sector-specific risks become more prominent, investors need to take a discriminating view, since a top-down approach to emerging markets is no longer appropriate.

But there may still be opportunities for investors at the stock level, as innovative emerging companies take advantage of supportive

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How emotions can lead you astray

MSCI AC World Index in US$

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* Investments in overseas markets can be affected by currency exchange and this may affect the value of your investment. Investments in small and emerging markets can be more volatile than other developed markets.

Source: DataStream April 2015, Fidelity World Wide Investments

IMPORTANT INFORMATION: This fact sheet has been prepared by RJS Wealth Management Pty. Ltd. ABN 24 156 207 126 and R J Sanderson and Associates Pty Ltd ABN 71 060 299 783. RJS Wealth Management Pty. Ltd. is a Corporate Authorised Representative (No. 438158) of Modoras Pty. Ltd. ABN 86 068 034 908 an Australian Financial Services and Credit Licensee (Number 233209). The information and opinions contained in this fact sheet is general information only and is not intended to represent specific personal advice (Accounting, taxation, financial, insurance or credit). No individual's personal circumstances have been taken into consideration for the preparation of this material. Any individual making a decision to buy, sell or hold any particular financial product should make their own assessment taking into account their own particular circumstances. The information and opinions herein do not constitute any recommendation to purchase, sell or hold any particular financial product. Modoras Pty Ltd recommends that no financial product or financial service be acquired or disposed of or financial strategy adopted without you first obtaining professional personal financial advice suitable and appropriate to your own personal needs, objectives, goals and circumstances. Information, forecasts and opinions contained in this fact sheet can change without notice. Modoras Pty. Ltd. does not guarantee the accuracy of the information at any particular time. Although care has been exercised in compiling the information contained within, Modoras Pty. Ltd. and R J Sanderson and Associates Pty Ltd ABN do not warrant that the articles within are free from errors, inaccuracies or omissions. To the extent permissible by law, neither Modoras Pty. Ltd., R J Sanderson and Associates Pty Ltd ABN nor its employees, representatives or agents (including associated and affiliated companies) accept liability for loss or damages incurred as a result of a person acting in reliance of this publication.

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