WHEN INVESTING, PATIENCE IS A VIRTUE

Key considerations in times of market volatility.

In an age of COVID-19, there will be compelling investment opportunities but it's important to align this year's investments with your long-term goals.

After the initial shock of the sharp market falls in 2020 due to the coronavirus pandemic, some people have been quick to look for investment opportunities among deflated markets and disrupted economies.

Undoubtedly, there will be opportunities. Indeed, some may have already passed, others are present right now, and new ones will emerge in coming months. Savvy investors will seek to capitalise, but these opportunities do come with risks.

Even though many companies are trading at much lower values, it is very hard to predict market movements in the short term: "catching a falling knife" is one term for it you may have heard.

Trying to make a quick profit in the stock markets bears many similarities to gambling. Sure, you could win big, but you could easily suffer significant losses should markets fall further on unexpected bad data.

Far better to seek opportunities while adhering to tenets of good investing: consideration for your own attitude to risk, your capacity for loss, your time frame, your objectives, diversification, and sound research or advice.

Most investors will benefit from adopting a long-term view to their investments.

INVESTMENT TIMESCALE

Of course, to take a long-term view you need time ahead of you.

If you have less than ten years until you need your money, say for retirement plans, you should already have positioned your investments more cautiously. Especially so if you have less than five years until you need access to the money. This should have sheltered you from some of the recent market falls.

This consideration will feed into your attitude to risk and your capacity for loss. Risk and reward are intrinsically linked. People endure the volatility of stock markets because over the long term they usually deliver good returns.

While future long-term reward cannot be guaranteed, the theory is that if you do not need your money in the short term, you can ride out the daily, monthly, even year-to-year fluctuations and make profit in an orderly manner without being forced to sell at inopportune times like these.

But time frame is not the only factor that feeds into your attitude to risk or capacity for loss.

If you are naturally cautious you may think twice about going to hunt for opportunity in equities (company shares). Alternatively, if you have no cash to fall back on now, exposing yourself to the risk of loss in the stock market may be too much to bear.

If you are unsure, two questions to ask yourself are: "How would you feel if you invested a lump sum now and it fell by 50% within six months?" and "will this investment keep me awake at night?"

If the answer to the first question is "OK, I knew there was a chance I can cope with the loss", or "I am more interested in what it has done in ten years", then you can move on.

If it would be a disaster for you, don't take the chance. Similarly, on the second question, if you think an investment would give you sleepless nights, it is best to avoid it.

Balance this against the fact there are risks to doing nothing, and that holding cash tends not to be a good store of wealth over time due to inflation.

LONG-TERM GOALS

As well as ascertaining your attitude to risk, a starting point of financial advice is to understand your objectives. If you are a seasoned investor, you probably appreciate this well.

For many it will be retirement planning, but it could be to build a college fund for your children or grandchildren, or buy a holiday house or a Harley Davidson motorbike.

Remember not to lose sight of your goals when making new investment decisions, and to revisit them and adjust them as and when necessary.

They are worth reviewing from time to time, to ensure your actions today are aligned with your goals of tomorrow.

OTHER FACTORS

So, you have got your long-term thinking hat on when looking for opportunities. What are some of the other hallmarks of sensible investing to remember when on the hunt for post-coronavirus investment opportunities?

Do more research if it appears too good to be true

We live in an age of data – so much data that we can feel overwhelmed, and anything can be shown in any light. All that glitters is not gold.

Make sure you do thorough research or rely on trusted sources for advice – multiple sources if necessary.

A compelling headline, a tip from an acquaintance, or a click-bait advert might make an investment opportunity look unmissable. As with most things in life, if it looks too good to be true, it probably is.

You should never feel pressured into making an investment decision. If you do, that should be a warning bell.

Before you commit money to an investment opportunity, check it out with someone you trust to deliver sound advice.

Diversification

Spreading risk is a key principle of good investment, and there are many ways that this can be achieved.

A single share purchase gives you zero diversification, while investing in a portfolio of shares or even just one fund starts to introduce some diversity.

Then you can diversify by geographical region, asset class, and even something like the different investment strategies of different fund managers.

When trying to take advantage of an investment opportunity, don't forget to pay heed to diversification.

This will apply if you have a long-standing portfolio, which may become imbalanced by piling money into a particular company or sector, or if you are just starting out and need to build diversification into your investment strategy from the outset.

Drip feeding

Another factor which may get in the way of you taking advantage of investment opportunity is the thought of committing all your money at once. This is because it introduces timing risk into your investment.

Remember, one simply can't predict what the markets will do on a day-to-day basis. While you may place your investment on a great day and really benefit, you could just as easily be unfortunate and commit just as markets take a tumble.

One way to reduce the risk of this is to drip feed your money into the market, and nowadays it is relatively simple to do. So instead of investing £60,000 in one go you invest £10,000 a month over six months, for instance.

Like with regular saving plans, you benefit from a phenomenon called pound/cost averaging. This is where if markets go up in the period concerned you have some exposure to gain some of the benefit. And if they go down, your next tranche of purchase benefits from getting the assets at a lower price.

Talk to us to review your situation.

IMPORTANT INFORMATION

This document is solely for information purposes and nothing in it is intended to constitute advice or a recommendation. You should not make any investment decisions based on its content.

The value of investments can fall as well as rise and you may not get back some or all of your initial investment. Past performance is not a guide to the future.

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