Quilter Investors

Investing through volatile times

Suitable for retail investors

Seven principles of investing

Anyone who reads the papers knows that the world's economies are going through a period of uncertainty. It's natural at these times for some investors to get twitchy, which only serves to make the situation even less predictable.

The truth is that share prices invariably rise and fall but, for the long-term investor, this shouldn't need to be the primary concern. Historically, long-term performance tends to even things out and there are even good reasons to see opportunity where less savvy investors are seeing only gloom.

The world of investing is overflowing with metaphors, adages, and fables, so here are our top seven principles for keeping your head when all about you are losing theirs.

Please speak to a financial adviser before making a decision to invest.

1. Get advice

Every single investor's needs are different and, while the points below are good general tips, there's no substitute for a plan that's tailored specifically for you.

The role of a financial adviser is to get to know you and your attitude to risk versus reward; and then to navigate you through your investment journey. What's more, in turbulent times, advice helps you take the emotion out of investing and provides an objective view. It may just be the best investment you ever make.

2. Make an investment plan and stick to it

It is one thing to have a target, but a sound financial plan can be the difference between simply hoping for the best and actually achieving your goals.

It helps you to stay focused on your long-term aims without being distracted by short-term market changes. The best way to formulate your plan and ensure it stays on track is with a professional financial adviser. They will talk to you about what you want to achieve for you and your family, your current situation, and your attitude to risk versus potential rewards. As well as tailoring a plan specifically to you, they can monitor its progress and recommend ways to keep it on course.

3. Invest as soon as possible

The earlier you invest the better. There is a reason that compounding, the ability to grow an investment by reinvesting the earnings, was referred to by Albert Einstein as 'the eighth wonder of the world.'

The magic of compounding allows investors to generate wealth over time, and requires only two things: the reinvestment of earnings and time. The difference of just a few years can make a massive difference to your end result.

4. Don't just invest in cash

When markets are volatile it's a big temptation to put all your investments in the relative safety of cash. It may seem like a safe bet. However, as they say, a ship is safe in harbour, but that is not what ships are for.

Every investor does need at least some part of their funds in liquid investments in case of an emergency, but low risk usually leads to lower returns.

For anyone with longer term investment plans it needs to be supplemented with investments in other asset classes that offer better capital growth potential and beat the perils of inflation.

5. Diversify your investments

When markets are fluctuating wildly it's all too easy to worry about the performance of certain investments while forgetting about the bigger picture. One tree with stunted growth doesn't necessarily mean the rest of the wood isn't thriving.

Similarly, when one asset class is performing poorly others may be flourishing. A diversified portfolio including a range of different assets can help to iron out the ups and downs and avoid exposing your portfolio to undue risk.

6. Invest for the long-term

Many people believe that knowing when to buy and when to sell is the secret of successful investing. The truth is that no one knows with certainty when markets will rise or fall. Trying to time the market is not only stressful, it is very seldom successful.

It's far better to use time to your advantage. The sooner you can start investing, and the longer you can invest, the more likely you are to have the potential for healthy returns and achieve your financial goals, regardless of short-term blips.

7. Stay invested

When markets are volatile, it is often tempting to exit the market or switch to cash in an attempt to reduce further expected losses.

However, it is impossible to time these movements correctly as no-one has a crystal ball to predict future movement, so being out of the market for just a few days can have a devastating effect on returns. Make a plan, stick to it, and don't try to time the market.

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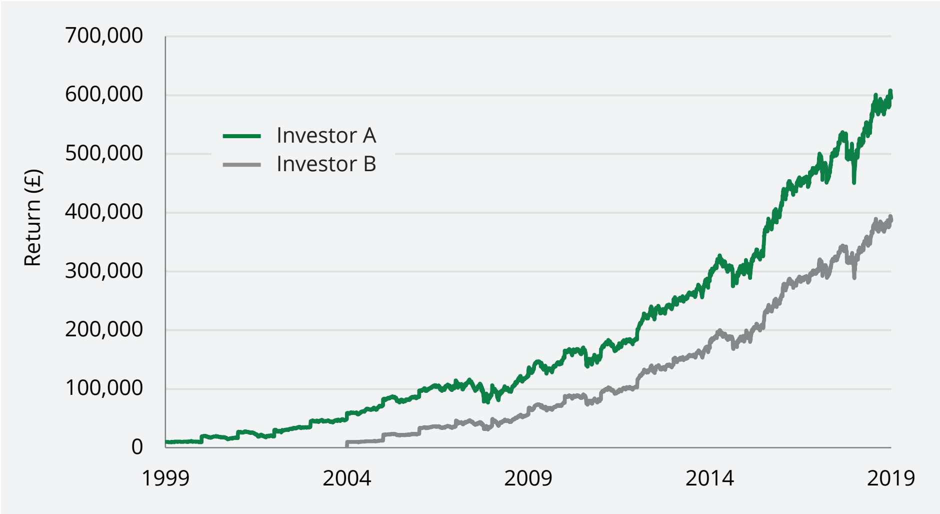
Invest as soon as possible

The advantages of starting early

Compound interest, often referred to in financial services as the 8th wonder of the world, can have an incredible effect on an investment portfolio.

The chart to the right shows two investors who both invest £10,000 every year into global equities. However, Investor A began in December 1999 and Investor B started five years later.

Over 25 years, Investor A has accumulated savings of £595,763 compared to savings of £386,190 for Investor B - over £209,573 more! If Investor B wanted to accumulate the same pot they would need to invest £15,427 every year!



Past performance is not a guide to the future. The value of units may fall as well as rise.

Source: Quilter Investors as at 31 December 2019. Based on an initial investment of £10,000 into the MSCI World Index over the period 31 December 1999 to 31 December 2019. Gross return in pounds sterling. The information provided is for illustrative purposes only and doesn't represent the past performance of any particular investment. **It is not possible to invest directly into the MSCI World Index.**

Don't just invest in cash

The impact of inflation

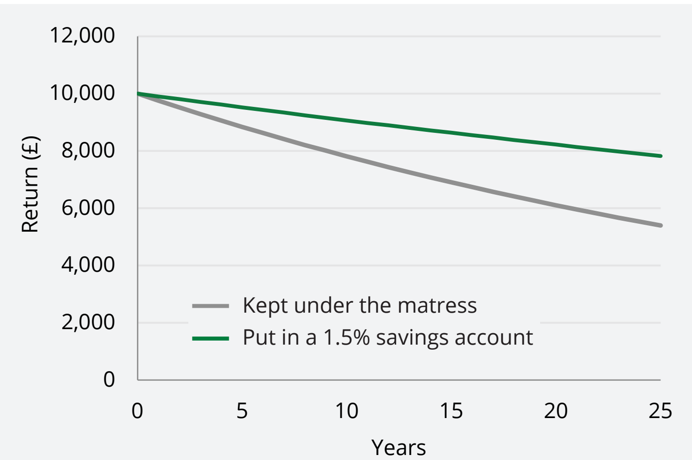
It is often tempting to see cash as a safe haven against all market volatility. However, recent years have seen higher rates of inflation and lower rates of interest on your cash. The pressure that inflation can place on your cash can be very debilitating and in the long run not being invested in the markets can be inherently riskier than being invested.

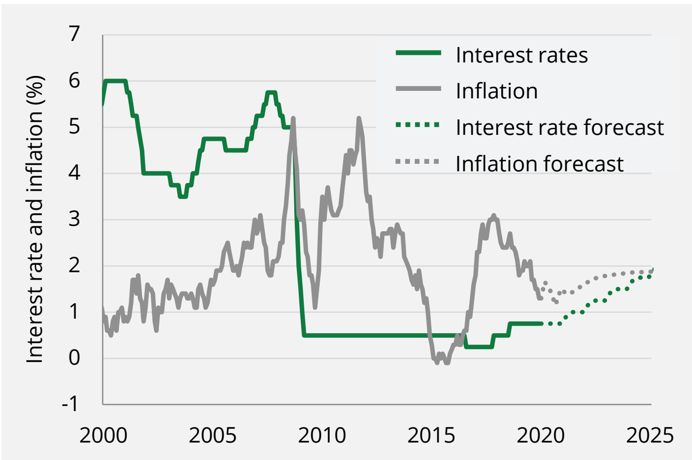
The eroding power of inflation

At just 2.5% inflation, an investor would lose nearly half of their purchasing power over 25 years. So, £10,000 today would only have the purchasing power of £5,394 in 25 years time.

Low future interest rates

Historically, interest rates have normally outstripped inflation. Investing in a standard interest bearing bank account would have provided some protection against the ravages of inflation. However, looking forward interest rates are expected to stay below inflation.





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Source: Quilter Investors as at 31 December 2019. Interest Rate is represented by the Bank of England Base Rate and inflation is represented by the UK Consumer Price Index (CPI) over the period 31 December 1999 to 31 December 2024. Future interest rate and inflation forecasts are the Factset median projections.

Diversify your investments

The importance of diversification

There are many different asset classes that an investor can choose, each possessing different risk characteristics. The chart below shows the annual returns of various asset classes over the last 10 years.

There is no guarantee that the sector that performs well one year will be top the next. In fact, it is often the opposite! By spreading investment across different asset types, it is possible to avoid exposing a portfolio to undue risk.

Returns (%)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Best	EM Equity	Global Corporate Bond	Asia Pac ex-Japan Equity	US Equity	US Equity	Japan Equity	EM Equity	China Equity	UK Property	US Equity
	Asia Pac ex-Japan Equity	UK Property	China Equity	Europe ex-UK Equity	China Equity	UK Property	US Equity	EM Equity	Global Corporate Bond	Global Equity
	Japan Equity	UK Cash	Europe ex-UK Equity	Global Equity	UK Property	Europe ex-UK Equity	Asia Pac ex-Japan Equity	Europe ex-UK Equity	US Equity	Europe ex-UK Equity
	US Equity	US Equity	EM Equity	Japan Equity	Global Equity	Global Equity	Global Equity	Asia Pac ex-Japan Equity	UK Cash	China Equity
	Global Equity	UK Equity	Global Equity	UK Equity	Global Corporate Bond	US Equity	Global Corporate Bond	Japan Equity	Global Equity	UK Equity
	UK Equity	Global Equity	US Equity	UK Property	Asia Pac ex-Japan Equity	Global Corporate Bond	Japan Equity	Global Equity	Asia Pac ex-Japan Equity	Japan Equity
	China Equity	Asia Pac ex-Japan Equity	UK Equity	Asia Pac ex-Japan Equity	EM Equity	UK Cash	China Equity	UK Equity	Japan Equity	EM Equity
	UK Property	Japan Equity	Global Corporate Bond	China Equity	Japan Equity	China Equity	Europe ex-UK Equity	US Equity	UK Equity	Asia Pac ex-Japan Equity
	Global Corporate Bond	Europe ex-UK Equity	Japan Equity	UK Cash	UK Equity	UK Equity	UK Equity	UK Property	EM Equity	Global Corporate Bond
	Europe ex-UK Equity	China Equity	UK Property	Global Corporate Bond	UK Cash	Asia Pac ex-Japan Equity	UK Cash	UK Cash	Europe ex-UK Equity	UK Cash
Worst	UK Cash	EM Equity	UK Cash	EM Equity	Europe ex-UK Equity	EM Equity	UK Property	Global Corporate Bond	China Equity	UK Property

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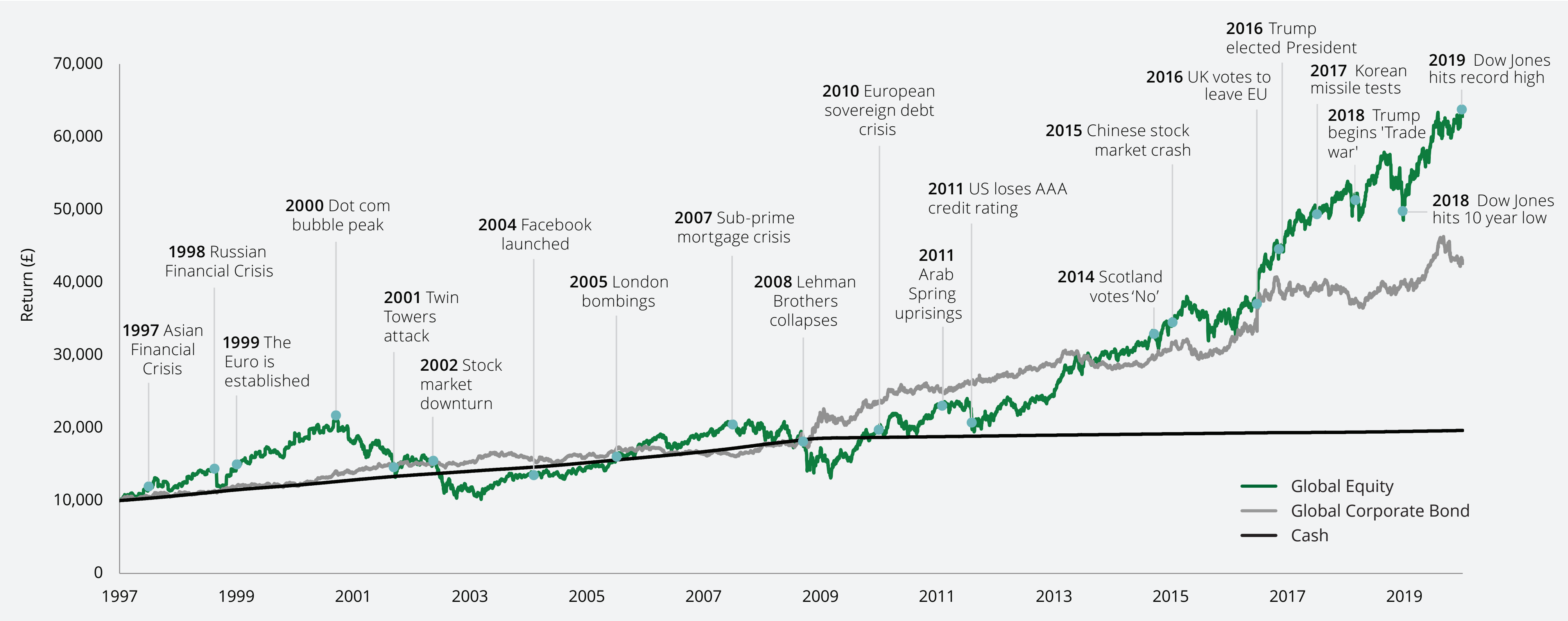
Source: Quilter Investors as at 31 December 2019. Annual returns over the period 31 December 2009 to 31 December 2019. Gross return in pounds sterling. Asia Pac ex-Japan is represented by the MSCI Pacific ex JP index; China equity by the MSCI China index; EM equity (Emerging markets equity) by the MSCI EM index; Europe ex-UK equity by the MSCI Europe ex UK index; Global Corporate Bond by the ICE BofAML Global Corporate index; Global equity by the MSCI World Index index; Japan equity by the MSCI Japan index; UK equity by the MSCI United Kingdom index; UK Property by the IA UK Direct Property sector; US equity by the MSCI North America index; and Cash by the ICE BofAML British Pound Overnight Deposit Offered Rate. The information provided is for illustrative purposes only and doesn't represent the past performance of any particular investment. **It is not possible to invest directly into an index.**

Invest for the long term

The benefits of long-term investing

Wise investors know that investing is a long-term commitment. Historically, investors who have been able and willing to ride out the periods of decline in the markets have seen their investments recover.

Investing with a long-term outlook and with long-term goals is the best way to reduce the impact of stock market fluctuations and see out periods of volatility. The chart below shows that short-term volatility is a characteristic of investing, but over the long term the trend is a rising one.



- **Investing for the long term is key** – an investor with £10,000 in December 1996 could have seen their investment grow by over 500% when investing in global equities.
- **Predicting when the stock market will rise and fall is almost impossible** – investing for the long-term could see investors through periods of market volatility.
- **Short-term, reactionary investing can be devastating** – trying to time the market is a fool's game and can be disastrous for investors.

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Source: Quilter Investors as at 31 December 2019. Based on an initial investment of £10,000 over the period 31 December 1996 to 31 December 2019. Gross return in pounds sterling. Global Corporate Bonds is represented by the ICE BofAML Global Corporate index; Global equity by the MSCI World Index index; and Cash by the ICE BofAML British Pound Overnight Deposit Offered Rate. The information provided is for illustrative purposes only and doesn't represent the past performance of any particular investment. **It is not possible to invest directly into an index.**

Stay invested

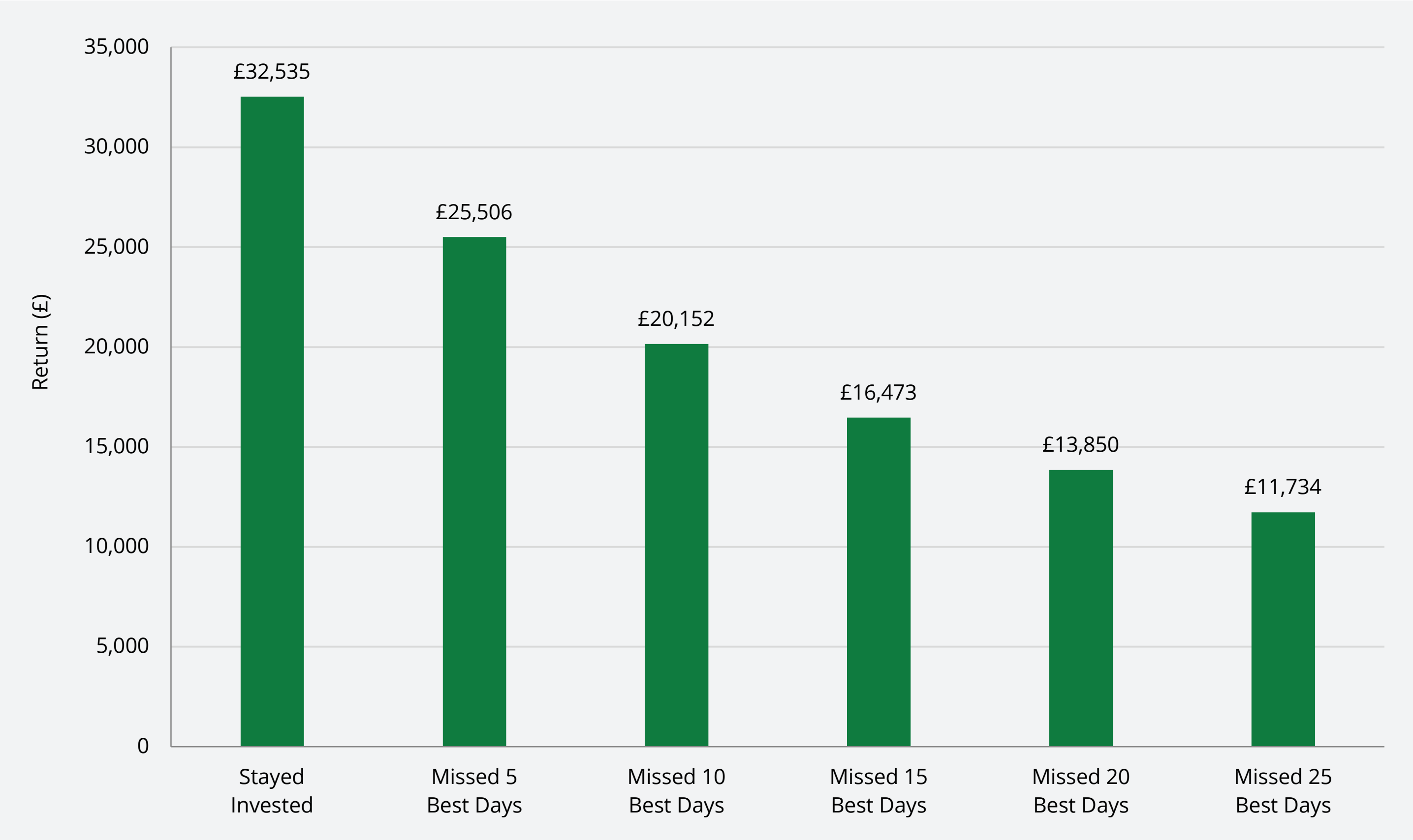
The perils of missing the best days

When markets are volatile, it is often tempting to exit the market or switch to cash in an attempt to reduce further expected losses.

However, it is impossible to time these movements correctly as no-one has a crystal ball to predict future movement, so being out of the market for just a few days can have a devastating effect on returns.

Using global equities as an example, the chart below shows how missing just a few of the best days can have a big impact on returns.

Over the last 25 years, using the same example £10,000 initial investment as previously, an investor who stayed in the markets throughout the period could have a potential return of nearly three times greater than that of an investor who missed the best 25 days.



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Source: Quilter Investors as at 31 December 2019. Based on an initial investment of £10,000 into the MSCI World Index over the period 31 December 1999 to 31 December 2019. Gross return in pounds sterling. The information provided is for illustrative purposes only and doesn't represent the past performance of any particular investment. **It is not possible to invest directly into the MSCI World Index.**

Important information

Past performance is not a guide to future performance and may not be repeated. Investment involves risk. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested. Because of this, an investor is not certain to make a profit on an investment and may lose money. Exchange rates may cause the value of overseas investments to rise or fall.

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expertly designed
multi-asset solutions.

QIL-058-20/SK14084/220-0089/Mar 2020