Worried about the markets?

Don’t Panic Mr Mainwaring!

Do you feel like the news is all doom and gloom? Ever rising energy prices and food bills. Inflation. Increased mortgage costs. Strikes. Your travel plans out of kilter, either from a delay in receiving your passport, or trying to locate your lost luggage?

Okay, so maybe they’re not all on the same level of importance, but it’s hard not to get caught up in the turmoil sometimes. As Lance Corporal Jones from the BBC comedy ‘Dad’s Army’ would often advise when he himself was feeling the pressure, ‘Don’t Panic Mr Mainwaring’. The expression appears rather apt in this current market environment. The financial markets have experienced some dramatic outcomes, even to – what some might consider to be – a conservative approach to investing.

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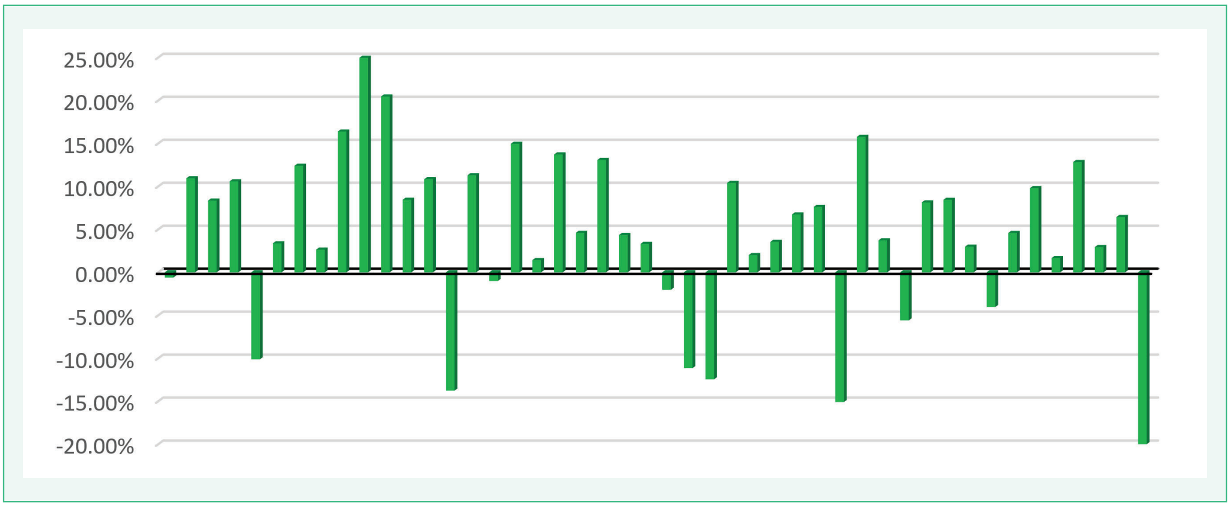
As Chart 1 shows, if you were invested in a 60/40 portfolio of equities and bonds, your investment would be down more than 22% for the first nine months of this year, the largest decline for this asset allocation in 40 years.

Chart 1



Source: Collidr / Bloomberg

Imagine, a portfolio with a 40% allocation to bonds down more than 22%!

With inflation in the UK continuing to rise, and some predicting it may even reach 22% early next year , the bond markets have experienced a turbulent start to 2022. Gilts (UK government bonds) have declined by nearly 31% and almost £1.5 trillion billion has been wiped off the entire UK bond market .

Chart 2

Source: Collidr / Bloomberg

[1] Source: Goldman Sachs report 30th August 2022
[2] Source: Collidr report October 2022

Who wouldn't feel anxious in this environment?

It may even have you assessing your financial situation, and what you need to do to get through this. Hopefully, to start, you have some things to look forward to beyond this specific period, with resources and support in place to help you along the way. If not, it's never too late.

Second, it's important to keep these events in perspective, to not let your emotions impact your decision-making, and to remain positive. To focus on the goals in your life that are most important to you.

When it comes to your investment plan, and making sure you achieve your objectives, I offer these four simple principles to follow.

1. Plan

Like most things in life, financial success rarely occurs overnight but usually involves some degree of planning. When it comes to achieving your investment goals – whether it's funding a comfortable retirement, saving for your dream home, or making sure your family is looked after – we believe developing a plan is crucial.

In turn, long-term financial well-being is invariably achieved by following a rigorous and disciplined investment approach to get there. Financial planning and adhering to a sound investment strategy go hand in hand.

Without a plan, investors may be prone to decision-making based unduly on emotions, while getting caught up in the market 'noise' around them. Following a sound investment discipline reduces this bias.

Equally, without focus and a review of your goals at times, the best laid plans can sometimes unravel. The world is constantly changing, and sometimes you will need to adapt in order to realise your objectives. Based on the previous example of the bond markets, a strong investment strategy will take into account these evolving market dynamics and adapt appropriately.

To start, you can avoid mistakes by working through your present situation and setting some reasonable goals for yourself, along with creating a plan based on your unique circumstances and preferences. For your investment strategy, it all starts with determining the most suitable asset allocation for you, and how to construct your portfolio.

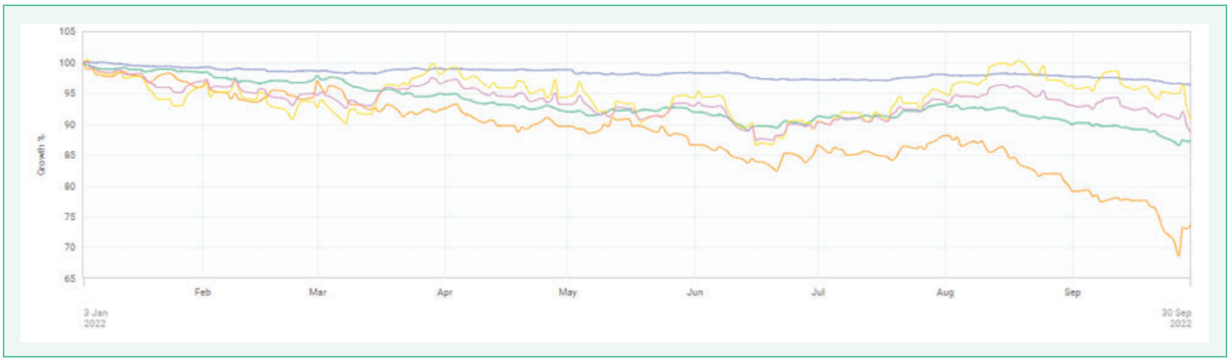
2. Invest

In addition to developing a financial plan, there are resources to help determine the ideal asset allocation for you. At Collidr, we work with trusted advisers to help with each of these important steps.

Generally speaking, the ideal asset allocation will be based on your overall investment objectives and your tolerance to risk. No doubt you've heard the saying – 'there's no reward without risk'. That's especially true when it comes to investing. For many, a basic approach might entail selecting the right balance of equities, bonds and cash to hold.

But as the previous example of the 60/40 portfolio shows, sometimes you need to look beyond these basic asset classes (and the underlying investment products to use to obtain that exposure). Achieving long-term financial success means not only accepting a trade-off between risk and reward, but understanding the historical patterns of equities, bonds, as well as other asset classes and strategies, so as to manage risk prudently and select the right investments for your portfolio.

Chart 3



Source: Collidr / Bloomberg

Models	Total Returns	Period Volatility	Max Drawdown
Collidr Core	-3.63	1.61	-3.75
Gilts All Stocks TR GBP	-26.28	13.33	-31.28
Bloomberg Barclays Global Aggregate Total...	-12.75	4.64	-13.42
FTSE World Equity Total Return GBP	-9.28	15.82	-14.31
Global Composite 40% Fixed 60% Equity	-11.37	9.87	-13.01

[7] Source: Financial Times 1st June 2022

3. Focus

To the team at Collidr, behavioural investing is the secret weapon in investment management. It's our core belief that everyone should understand the fundamental (and sometimes flawed) role human behaviour plays in the investment process if they hope to achieve long-term success.

Why is it important?

Because human behaviour, for instance, emotions, can affect how we make investment decisions and often lead us to bad decision-making, as well poor intended outcomes. Common mistakes include buying funds with good recent performance without considering the risk involved, in the mistaken belief that the strong performance will continue; or being afraid to invest in the market after suffering a recent loss. The example below shows the spike in the price of GameStop, a retail stock for electronic games in the US, which rallied strongly based on pure speculation posted on the social media site Reddit, only to collapse back to previous levels. This is a perfect example of herding behaviour.

Chart 4

Source: Bloomberg

Research has shown that both acts are sometimes difficult to overcome, even for professional investors. That's why we built Quantimental – Collidr's proprietary investment approach. Behavioural investing is an integral part of Quantimental, and its philosophy flows into the tools we have developed to create a disciplined, rules-based system.

Whether it's evaluating and monitoring exposures to asset classes or strategies (ARES), analysing how assets, portfolios or funds should behave in a whole range of market conditions (Regime Matrix), or mathematically optimising portfolios using multiple investment techniques (Frontier Finder), there are many tools at our disposal with Quantimental.

4. Assess

It's important to keep the markets in context – they will always rise and fall. To be successful, one needs to continually manage risk appropriately, as well as look for opportunities where to invest. That is, to follow and maintain a long-term discipline.

For some investors may find themselves making impulsive decisions at times or, conversely, finding themselves afraid to implement an investment strategy required to achieve their long-term objectives.

The asset allocation decision is a critical element in achieving one's investment objective, but it's only part of the process.   Knowing how to invest through varying market environments, the asset classes, investment strategies or trading techniques to deploy, in the long-term, will help protect and enhance overall market returns.

So don't lose sleep.

It's important to keep this perspective in mind, to avoid panicking, and adhere to a long-term investment discipline instead, so as to help you through these and, no doubt, other periods of market uncertainty ahead.

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