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When doing nothing is best

From time to time, stock markets go through periods of uncertainty. This could be down to some poor economic news or perhaps due to a political crisis. The sharp falls that can be experienced at such times are understandably unsettling for investors. They can even tempt some to change their long-term plan by selling their investments. However, stock market volatility does tend to be short lived. Therefore, most experts agree that investors are probably better off sitting tight through these unnerving periods.

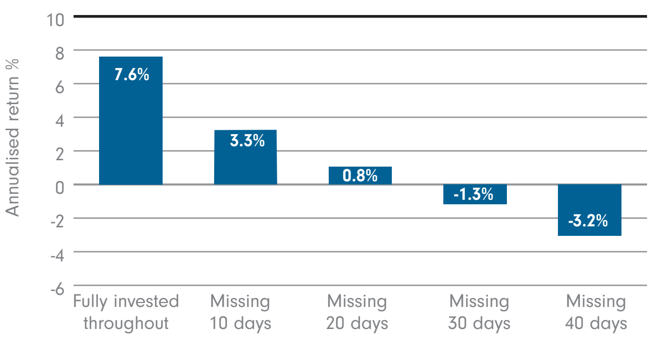
- When stock markets become volatile, it is usually best to resist making changes to your long-term investment strategy
- It is too easy to miss the best gains when you try to time the stock market
- Time, not timing, is the key to investing

Those who sell or delay making new investments when stock markets become uncertain are actually employing a strategy known as 'market timing'. The intention is often to invest once stock markets have calmed down or to buy when stock markets have gone even lower. This can be a very dangerous strategy.

Sharp falls in stock markets tend to be concentrated in short periods of time. Similarly, the biggest gains are often clustered together. It is also quite common for a large gain to follow a big fall (or vice versa). Accordingly, an investor who tries to anticipate when the best time is to invest runs a very high risk of missing the best gains. This can have a big impact on their long-term return.

To help illustrate this, we have analysed the average annual return from the UK stock market over the last 15 years. As the chart shows, missing just the ten best days over this period would have cut your annual return substantially. Timing the stock market is extremely difficult, the best policy is usually to stay fully invested over the long term.

FTSE All-Share: Effect of missing best days



Source: Datastream, from 31.12.04 to 31.12.19, annualised return.
Returns based on the performance of the FTSE All-Share, with initial lump sum investment of £1,000 on a bid to bid basis with net income reinvested.

FTSE All-Share Index

How the index has performed over the last five years

	Dec 14 to Dec 15	Dec 15 to Dec 16	Dec 16 to Dec 17	Dec 17 to Dec 18	Dec 18 to Dec 19
FTSE All-Share	1.0%	16.8%	13.1%	-9.5%	19.2%

Source: Datastream from 31.12.14 to 31.12.19, on bid-bid basis with net income reinvested.

Please note that past performance is not a reliable indicator of future returns. The value of investments can go down as well as up, so you may get back less than you invest. This information is not a personal recommendation for any particular investment. If you are unsure about the suitability of an investment you should speak to **Brian Mellor Financial Services on 01538 371288.**