Managing investments in uncertain times

INSIDE

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Understanding volatility

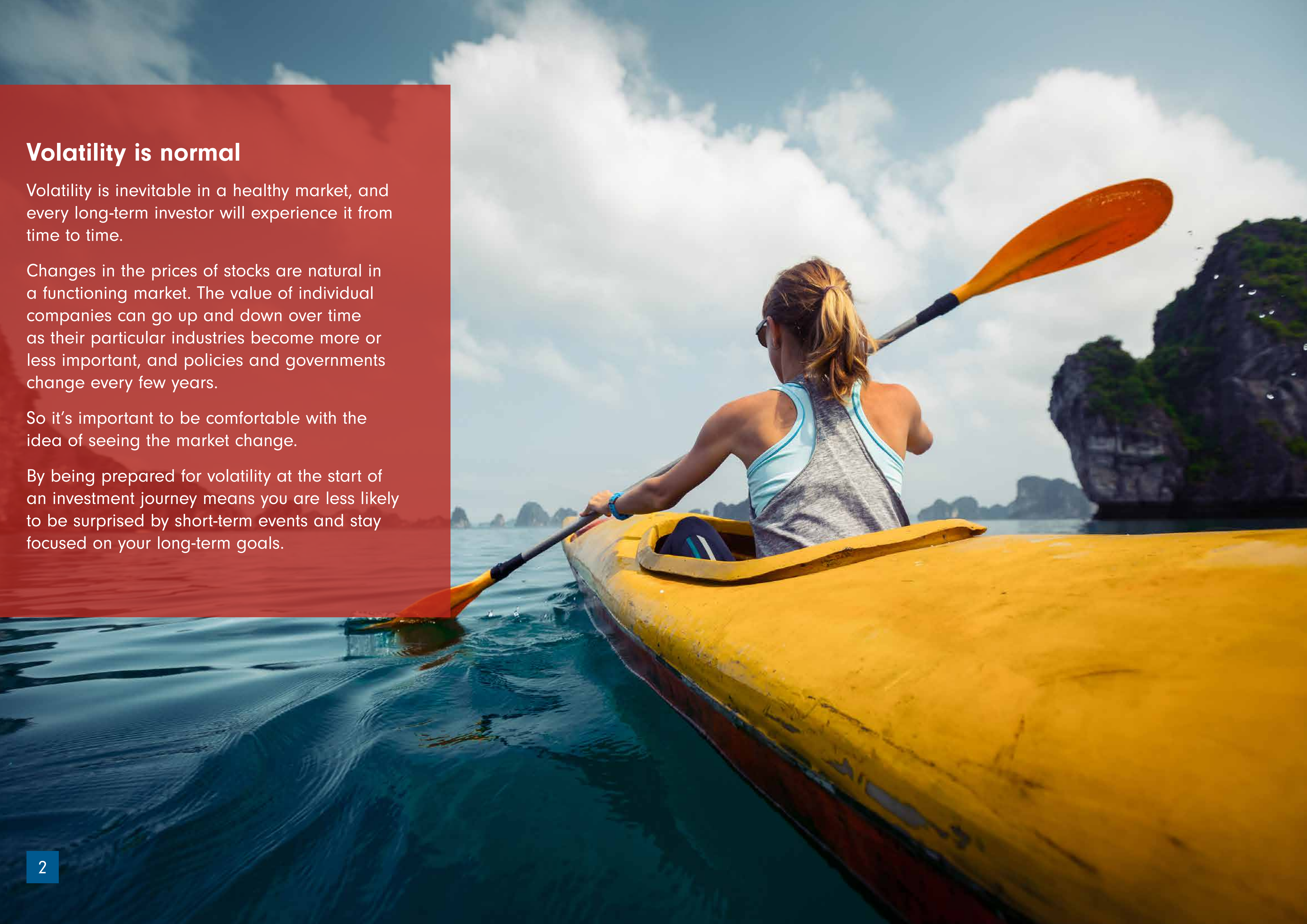
Important information – The value of investments and the income from them can go down as well as up so you may get back less than you invest.

Volatility is an investment term for when the stock market goes up and down and is a normal part of investing. We sometimes have increased volatility, when the stock market experiences periods of unpredictable and sometimes sharp, rises and falls.

People often think about volatility only in connection to dramatic drops in prices, but it can also refer to sudden rises as well. So, it's really just a way of describing a market that's going through some turbulence.

Volatility is caused by a wide range of economic and political factors. From news affecting a particular industry sector, to government policy changes, political tensions or upheavals; anything that creates uncertainty and causes some investors to sell and others to buy can lead to volatility.

In a highly volatile market prices aren't always an accurate reflection of real worth. A sudden swing up or down can make an investment suddenly seem worth more or less than it really is over the long term.



Volatility is normal

Volatility is inevitable in a healthy market, and every long-term investor will experience it from time to time.

Changes in the prices of stocks are natural in a functioning market. The value of individual companies can go up and down over time as their particular industries become more or less important, and policies and governments change every few years.

So it’s important to be comfortable with the idea of seeing the market change.

By being prepared for volatility at the start of an investment journey means you are less likely to be surprised by short-term events and stay focused on your long-term goals.

Keep a cool head

When you see a sudden change in the stock market, you might feel tempted to rush into buying or selling stocks, either to ride a wave of growth or minimise your losses.

But instinctive reactions don't always make for sound financial decisions. By acting too quickly you're more likely to make costly mistakes, like selling low or buying high.

It's important to keep a cool head when the market is volatile, and avoid being distracted by your emotions.

> "By acting too quickly you're more likely to make costly mistakes, like selling low or buying high."

Time in the market

Probably the single most important principle of investing is that the longer you hold an investment, the more likely it is to deliver a positive return.

Historic data suggests that while most markets will experience periods of short-term volatility, over the long term they should maintain a steady, upwards path, though this can never be guaranteed.

By moving too quickly to get rid of assets, you may run the risk of missing out on seeing your investments recover from falls, and even grow in value.

Though past performance is not a guide to the future, staying invested can be a way to capture as much growth from the market as possible.

The value of diversity

When it comes to investing, diversity is about not having all your eggs in one basket.

Some investments will always be more risky than others, and different sectors and market areas experience periods of volatility at different times.

Certain industries that are either very dynamic, like technology, or heavily regulated and scrutinised, like oil and gas, can experience periods of volatility quite frequently.

Similarly, geopolitical events can lead to local or regional uncertainties in different parts of the world, which can cause their own pockets of volatility.

By maintaining a spread of investments across different sectors and market areas, investors can try to reduce some of the effects of volatility across their investment portfolio. This doesn't necessarily mean higher growth potential but, it can help to deliver a steadier return.

"Don't put all your eggs in one basket."

Equities versus cash and bonds

Investments in stocks and shares are also known as equity investments because they are connected to the market value, or equity, of companies.

It's well known that equity investments carry a higher risk than investments in things like cash or government bonds.

These types of investments tend to fluctuate much less than equity investments and aren't normally affected by market volatility as much, but they also tend to grow more slowly.

Historically data shows that over time equity investors are usually rewarded for the extra risk they take, with equity investments generally outperforming cash investments over the long term, even when inflation is taken into account.

Of course, many investors do keep some investments in cash as part of a strategy to maintain a diverse and balanced portfolio.

Please remember the value of investments can go down as well as up, so you may get back less than you invest.

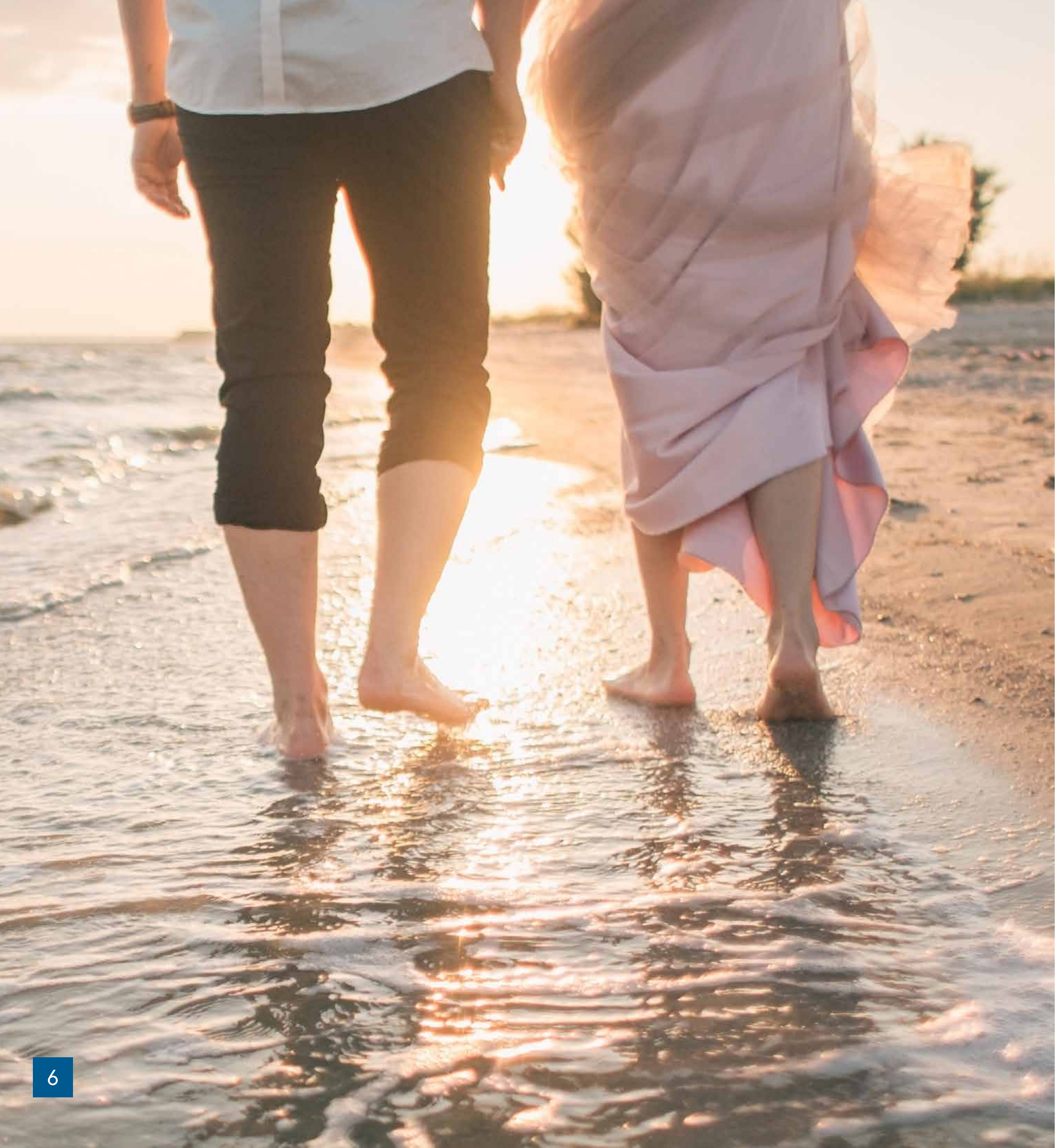
The benefits of regular investing

One of the best ways to address volatility is to invest regularly.

Making smaller investments at regular intervals can both remove some of the worry about when you should purchase shares, and help you take advantage of changes in their price.

This process is know as pound cost averaging. By drip-feeding cash into your investments regularly, your money will buy more units when the price is low and less when prices are high – so the price averages out over time.

Most investment funds or platforms will let you set up regular payments each month, or similar regular intervals.



Looking ahead

For investors, market volatility can either be a useful opportunity or an unwelcome distraction. But it should never be a reason to act rashly.

The most important thing about any investment journey is to remain focused on your long-term goals, and not be distracted by sudden events that might seem scary but can be managed with a little bit of planning and a level head. 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 one of Fidelity's advisers or an authorised financial adviser of your choice.