26 August 2021 | Investment perspectives

Why it pays to stay invested

Investing in stock markets can sometimes be unnerving, particularly when there is negative news flow all around us. We explore why it's important to ignore the noise and invest for the long term.

Many things can affect financial markets, so the constant stream of bad news from around the world can be enough to put anyone off investing until a later date. This year alone we have already seen markets reacting to spikes in inflation and the rapid increase in the spread of the Delta variant of the coronavirus.

If you're waiting for the perfect time to maximise your returns, you're unlikely to find it. The best course of action is usually to start investing as soon as possible so that you have the longest time horizon to maximise your returns. Below we explore why this is the case in more detail.

Short, sharp shocks

History is filled with examples where markets react to certain events. In some cases, markets recover quickly and in others they take longer. Figure 1 shows market returns in the year of notable events and what your money could be worth today if you had ignored these market shocks and stayed invested.

When the stock market crashed in the financial crisis of 2008, it took four years for it to recover. The turmoil began with the collapse of the housing bubble in the US, which led to the worst global recession since the 1930s. This triggered panic in the stock market, bringing many financial institutions and businesses to the brink of collapse. By the end of the year the MSCI World Index, which tracks companies across the world, had fallen 19.3%.

Governments were quick to intervene to try to limit the crash, while central banks cut interest rates and introduced easing measures to help markets recover. These policies helped markets bounce back, with the MSCI World Index rising by 17.3% the following year.

Figure 1: Impact of news events on stock markets

The timeline shows the annual stock market return* during standout negative news events since the 1970s and what £10,000 would be worth today** if you had stayed invested through these crises.

1973 - Oil crisis
-14.3% return
£980,387

1982 - Falklands War
29.9% return
£539,651

1987 - Black Monday
-8.7% return
£149,536

1991 - First Iraq War
22.0% return
£140,477

1997 - Asian crisis
20.5% return
£63,158

2002 - Dotcom bubble bursts
-27.7% return
£41,231

2008 - Global financial crisis
-19.4% return
£32,060

2020 - Covid-19 pandemic
12.6% return
£11,261

Source: Bloomberg (2021)
* Data displayed is for MSCI World Index (GBP)
** Assumes £10,000 was invested in the MSCI World Index (GBP) on the first working day of that specific calendar year.
Performance measured to end December 2020.

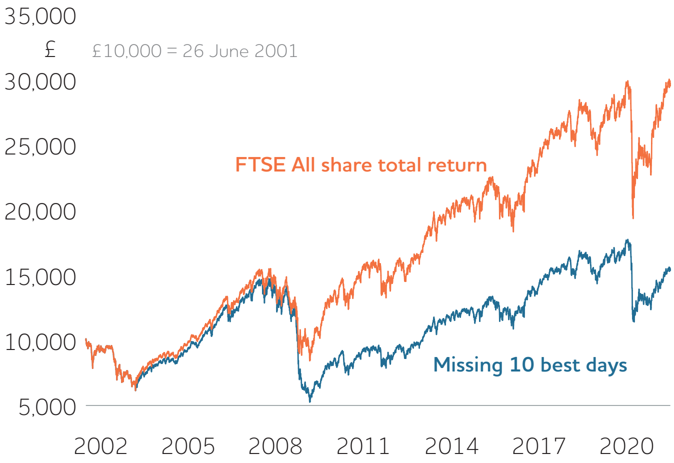
"Time in" the market, not "timing" the market

The market's normal ups and downs are difficult to predict, so it's best to think of the daily blips as just noise. Although this noise can be very difficult for most investors to tune out, panic selling can significantly reduce long-term returns. This is because the best periods of stock market performance frequently follow the worst days, especially in periods of above-average volatility. So if you sell after a particularly bad day in the markets, you could miss out on some of the best days.

For example, if you invested £10,000 on 29 June 2001 in the UK stock market,[1] 20 years later it would be worth £29,510. If you had missed the 10 best days in the UK over the last 20 years, you would seriously dampen your investment returns (figure 2).

Figure 2: Missing the best days

This chart shows how much a £10,000 investment would be worth if you had missed the 10 best days in the UK stock market since 2001.



Source: Bloomberg (2021).

A long-term relationship with your investments

While the last five decades have proved challenging at times, investors who have ridden out the downturns by staying invested have been rewarded in the long term. If you only invest over the short term, while you could make some money, there is a fair chance you could lose it as well.

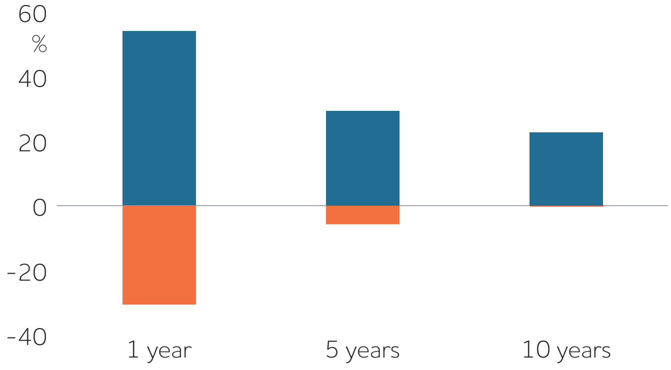
[1] Investing in the FTSE All Share Total Return index.

For example, investing over any one-year period over the last 50 years, you could have made over 50% returns if you had picked the best year, according to the MSCI World Index (figure 3). However, you could have also lost over 30% if you had picked the worst. Conversely, if you had invested over a 10-year period, your worst-performing period would have given you -0.27% per year compared to a best-performing period giving you over 20% returns per year. While there are no guarantees of how stock markets will perform, history suggests that you are less likely to lose money if you invest over the long term.

More often than not, negative news events have a short-term impact on markets. Staying invested and taking a long-term perspective should not only help investors ride out any instances of stock market volatility, but also boost their chances for long-term success.

Figure 3: Annual returns for the MSCI World Index since 1970

If you invest over the short term you are more likely to lose money than if you keep your money invested.



Source: Bloomberg (2020).

The Omnis approach

At Omnis, we're committed to being active investors. We only work with active investment managers that have long-term experience of investing across different market conditions. This should give you confidence that your money is being managed by professionals who can look through the market noise and seek attractive long-term investment opportunities.

You can also be assured that the Omnis team are continuously monitoring our investment managers to ensure they are on track to deliver the long-term objectives of our funds. You can find out more about how we work with our active investment managers here or by speaking to your financial adviser.