Sanlam Investments

Stay invested in times of market uncertainty

"*Predictions are difficult to make, especially about the future*" - Yogi Berra

Given current market volatility, it may be tempting for you as an investor to "time" the markets to avoid losses and maximise gains. In timing the markets, investors try to predict when the equity market is going to move up or down, and switch in and out of cash and equities accordingly.

However, time has shown that investors are better off resisting the temptation to make changes to their long-term plan, and not reacting to short-term market movements. This is because if you sell your shares in a panic as they fall, you might miss out on the recovery as the markets rise again - timing the market is just not worth the risk.

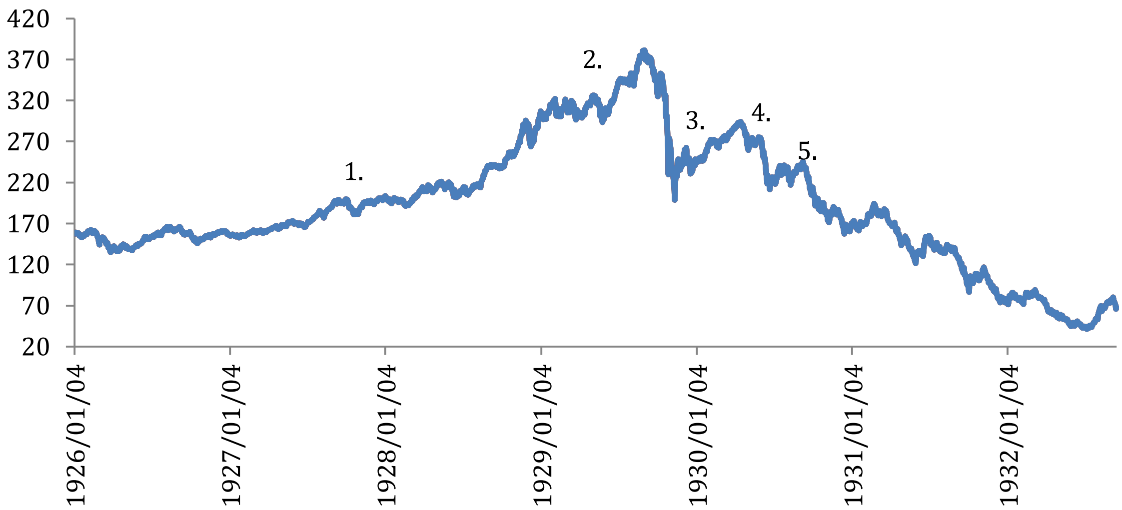
Don't bail out of your long-term plan, stay calm, stay invested and stay the course!

If history is anything to go by, short-term volatility is perfectly normal in equity markets. This volatility can result in a wide range of positive or negative outcomes depending on the position that you took (and more importantly, when you took that position). Although historically, stock markets have risen far more than they have fallen, and the long-term trend of the markets has been upward, it is extremely difficult to predict when the market is going to go up or down. Few investors can predict with any degree of certainty when, and by how much, the markets will rise and fall.

Many of us believe that it is actually impossible to "time" the market. In reality, market data also indicates that trying to time the markets can be a costly strategy.

Below you will find two charts of the Dow Jones Industrial Index ("Dow Jones"), the first being the price chart for the "Dow Jones" during the Great Depression (during the 1930s) in the United States, and the second being the price for the same index during the recent financial crisis.

The idea is not to point out the mistakes made by market participants, but purely to point out that not even industry's greatest minds can successfully "time" the market.



Source: Bloomberg

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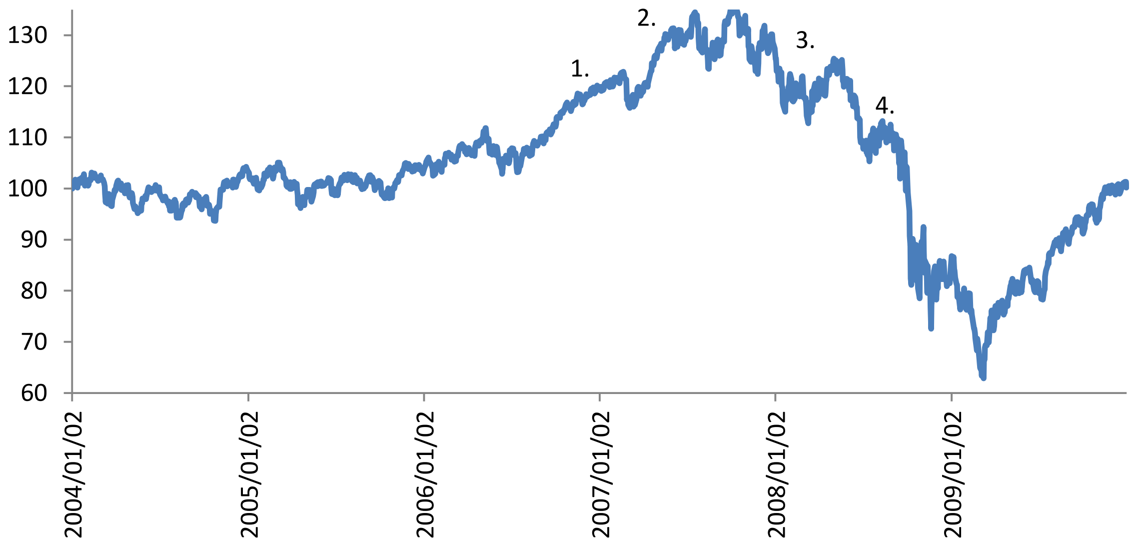
1. "We will not have any more crashes in our time" - John Maynard Keynes, 1927
2. "There may be a recession in stock prices, but not anything in the nature of a crash" - Irving Fischer Ph.D. in Economics and a leading US economist, 1929
3. "This is the time to buy stocks, any man who is bearish on America will go broke" - R.W. McNeal
4. "There is nothing in the situation to be disturbed about" - Andrew Mellon, Secretary of the US Treasury, 1930
5. "There is evidence that the severe phase of the recession is over" - Harvard Economic Society, 1930



Source: Bloomberg

1. "The world economy is stronger than I have ever seen it" - Hank Paulson, Secretary of the US Treasury, Nov 2006
2. "If you wait too long to buy, you will miss out" - Tobias Levkovich, Chief US Equity Strategist, Citigroup, 2007
3. "The state of macroeconomics is good" - Olivier Blanchard, Chief Economist of the International Monetary Fund, 2008
4. "The financial system is sound and resilient" - Hank Paulson, Secretary of the US Treasury, September 2008

As mentioned, the aim of this article is not to point out the mistakes others make, but rather the error in thinking that you have the ability to “time” the market and highlighting what that “mistake” will actually cost you.

The chart below illustrates the impact of missing out on the best 10 and 20 days on the All Share Index in a period of nearly 20 years. We sourced the daily returns of the JSE’s All Share Index dating back to 30 June 1995 and calculated what your returns would have been if you’d invested R10,000 on the 30 of

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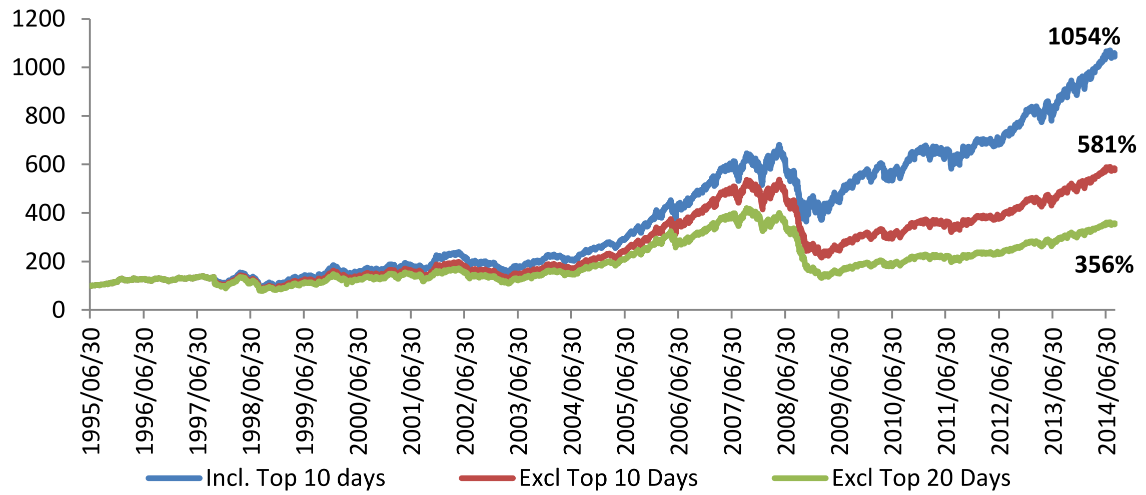
June 1995. We also calculated what your returns would have been had you attempted to time the market and missed out on those 10 and 20 days with the highest returns over that time (please note this data does not include dividends received).

The Problem with Market Timing: Missing the Best Days				
19 Years of data (30/06/1995 - 02/09/2014)				
R10,000 Invested in the All Share	All Share Annualized Return	Value of R10,000 invested of the	Gain/Loss	Impact of Missing days
All 4793 trading days	13.2%	R 105 458.63	R 95 458.63	
Less the 10 days with the biggest gains	9.7%	R 58 066.54	R 48 066.54	-49.65%
Less the 20 days with the biggest gains	6.9%	R 35 528.46	R 25 528.46	-73.26%



Source: Bloomberg

They say a picture is worth a thousand words, in this case the picture (or chart), is worth thousands of Rands…

If you missed the Top 10 trading days in the All Share Index in your attempt to time the market, your return would have been **49.65%** less than the investor who stomached the volatility and stayed the course. If you missed the Top 20 trading days, your return would have been an agonizing **73.26%** lower relative to the All Share Index!

In light of the above, we agree with John Bogle (founder of the Vanguard Group, one of the biggest index providers in the world), "… **not** investing is the only way to guarantee that at the end of the line you'll have nothing".

We accept that if you actually did successfully "time" the market and missed the worst 10 days, you would have had significantly higher returns compared to the market. But in the words of John Bogle - *"no-one can time the market, if they say they can, they are lying".*

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Take this chance to sit back and review your personal investments in the context of your financial objectives and risk appetite, not short-term market performance. If your personal circumstances and investment goals are unchanged, stay committed to your long-term investment plan.

"Time is your friend; impulse is your enemy."

This article is not intended to negate investment processes that manage against extreme optimism and pessimism in markets, and which may involve tactical asset allocation from time to time when extreme market events call for it.

During different times of the market cycle or as investment needs dictate, investors may well need greater exposure to equities (risk) and at other times less, while remaining diversified across the entire asset class spectrum.

The concept of timing in this article refers to investors jumping impulsively in and out of the equity market and into cash. What we wish to convey is that investors should leave the decision-making up to their experienced fund managers to utilize a robust investment process, and maintain a diversified allocation to different asset classes across their total portfolio including (and probably most importantly), equities

Stay the course.

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