Lyndhurst
Financial Management

MARCH 2018

Guide to
Stock Market Turbulence

Don’t let global uncertainties affect your financial planning for the years ahead

Lyndhurst Financial Management Ltd
Lyndhurst House, High Street,
Harpenden, Hertfordshire, AL5 2RT

T: 01582 715777
admin@lyndhurstfm.co.uk
www.lyndhurstfm.co.uk

www.lyndhurstfm.co.uk

Guide to Stock Market Turbulence

Don't let global uncertainties affect your financial planning for the years ahead

The overall direction of developed stock markets is a relentless and continual rise in value over the very long term, punctuated by falls. It's important not to let global uncertainties affect your financial planning for the years ahead. Individuals who stop their investment planning, particularly during market downturns, can often miss out on opportunities to invest at lower prices.

Such volatility is less frightening if you take a longer-term view. It's important to stick to your strategy and keep moving ahead consistently by spreading risk and growing your wealth. It's volatility in stock markets that make investors nervous. However, on the flipside, not all volatility is bad: without volatility, stock prices would never rise.

Higher inflation and faster interest rate rises

At the time of writing this guide in February, markets had reacted to the signs of faster wage growth and a strengthening US economy that may lead to higher inflation and faster interest rate rises. The global sell-off began following a solid US jobs report that fuelled expectations that the Federal Reserve would need to raise interest rates faster than expected because of the strength of the economy. That concern prompted the pullback from stocks.

The Bank of England seemed to offer support for the view that rates in general are on an upward path with a strengthening UK economy, meaning interest rates are likely to rise sooner than the markets were expecting.

More attractive investment alternatives

A government budget proposal announced by US lawmakers to raise spending caps could also fan inflationary pressures. Rising US bond yields are another possible signal of higher rates to come, which could impact on corporate profits and curb economic activity. But at the same time, higher interest rates can make investment alternatives to stocks, such as bonds, more attractive.

In practice, everyone's investment goals are different. By deciding on your long-term financial priorities – whether it's funding your children's education or saving enough to be able to retire early – you can avoid being blown off course by short-term events.

Investors should focus on long-term horizons

Trying to second-guess the impact of events such as Brexit or the recent stock market correction – or even attempting to make a bet on them – rarely pays off. Instead, investors who focus on long-term horizons – at least five to ten years – have historically fared much better.

Sensible diversification – owning a mix of assets, including shares, bonds and alternative investment such as property – can help protect investors over the long term. When one area of a portfolio underperforms, another part should provide important protection – and it's never too early or too late to start taking this considered and strategic approach.

Protecting your investment portfolio – what you need to consider

Media frenzy

Volatility, risk and market declines are a normal part of the investing cycle, but the media likes drama. Reports will use words that make these market fluctuations sound alarming, so be cautious about reacting to the unnerving 24/7 news cycle.

Stay strategic

If you have a well-diversified portfolio, then it's more important than ever to stay the course. You have a strategy in place that reflects your risk tolerance and timeline, so stay committed. However, if you reacted and sold in a previous market decline or have not implemented a strategic asset allocation, then now is the time to have a discussion about your investment options.

Stay calm

Be aware of the psychological affect this type of volatility has on you as an investor, and resist the urge to be reactive. The recent decline was expected and is coming after financial markets as a whole have experienced a historic bull phase for close to ten years now.

Stay focused

No one knows how severe any market turbulence will be or what the market will do next. It could be over quickly or linger for a while. But no matter what lies ahead, proper diversification and perseverance over the long term are what's most important. ■

It's about achieving a good balance

There are many ways that you can invest, and while we all want our money to grow, it's important to think about the level of risk you might be willing to take with your hard-earned money. It's about achieving a good balance. To discuss your future investment objectives or review your current portfolio, please contact us.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

"If you have a well-diversified portfolio, then it's more important than ever to stay the course. You have a strategy in place that reflects your risk tolerance and timeline, so stay committed."

New to investing or looking to expand your portfolio?

Whether you're completely new to investing or looking to expand your portfolio, we're here to help. We'll assess your preferred level of risk and investment time horizon to help you reach your goals.

Want to discuss your situation or require further information? Please contact us.

Published by Goldmine Media Limited, Basepoint Innovation Centre, 110 Butterfield, Great Marlings, Luton, Bedfordshire LU2 8DL

goldmine media