ST. JAMES'S PLACE
WEALTH MANAGEMENT

INVESTMENTS

WHY INVEST NOW?

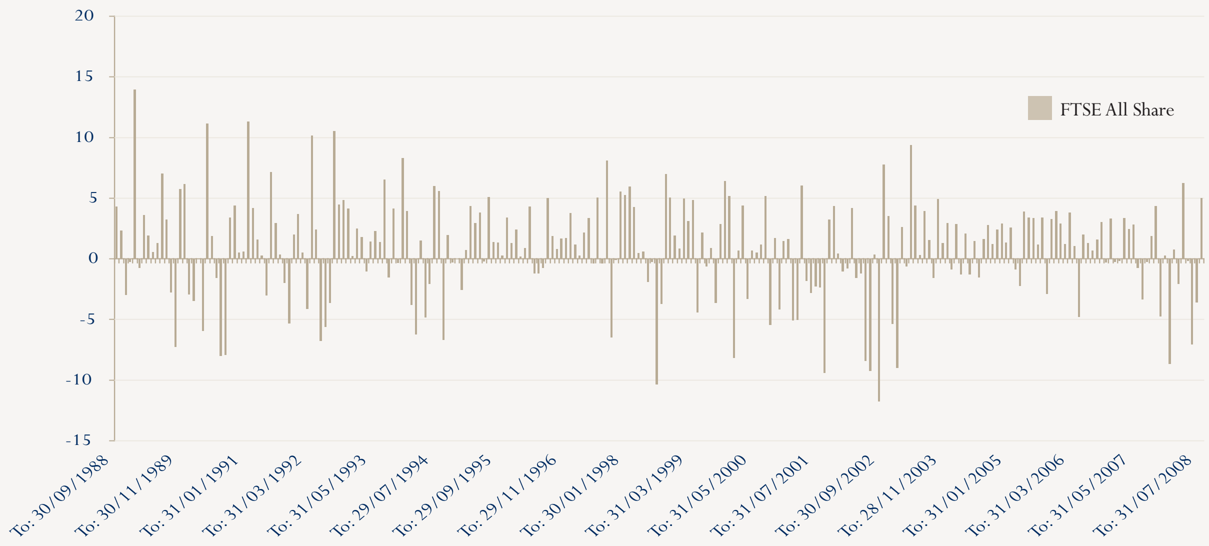
Time in the markets not timing the markets

Short-term volatility is an inherent feature of stock market investment. That's why stock market investment has to be a long-term game. Unfortunately, the bad days tend to be headline news and the good days are often overlooked. It is these headlines that make people nervous about investing.

The graph below shows how the returns from the UK market, measured by the FTSE All Share Index, fluctuate from one month to the next. Despite this, the market has returned 215% over the full 20 year period (Source: Lipper – data to 31/08/2008).

Short-term volatility

Rolling monthly discrete returns - FTSE All Share (1988-2008)



Source: Lipper. Stock market represented by the FTSE All Share Index. You should remember that past performance refers to the past and is not a reliable indicator of future results. The value of an investment and the income from it can fall as well as rise

All too often, the sharpest rises follow the sharpest falls. If short-term investors react to the dips by selling, then it's very likely they'll miss the bounce, crystallising the losses and missing the gains. Holding your nerve is far from easy, when our instincts are telling us it's time to quit. But this is nearly always the wrong course of action.

The performance of the stock market this year has illustrated this perfectly. On 21 January the FTSE All Share Index suffered its largest daily fall in 15 years, losing 5.27%. On 24 January the Index gained 4.56% in one day, its third largest rise in 15 years (Source: Fidelity). On 19 September the UK market rose 8.5%, its largest ever one day gain, yet this followed four days when the market had fallen 9.4% (as measured by the FTSE 100 Index) in total on the back of the crisis in the financial markets (Source: Lipper). Selling after prices have fallen is a sure-fire way to lose money. Paper losses are depressing, but they are not as painful as real ones and you haven't lost a penny until you have sold.

Is now the right time to invest?

Despite this evidence, the temptation for investors is to try to 'sit out' the difficult periods and then 'step in on the way up'. Aside from the challenge of correctly picking the bottom of the market, the problem with this approach is that, in waiting for the signs of a sustained turnaround, the best returns are missed. Take as an example the previous bear market period of 2000-2003, when the FTSE All Share Index lost 52% from peak to trough. Just 12 months later, the index had posted a gain of over 40% and over 5 years until March 2008 had returned 86%. However, an investor who had remained on the sidelines for the first 12 months of that 5-year period would have seen their returns cut to just 32%.

2000-2003 Bear Market

Event	Period	Index	Performance
Peak	Sept 2000	3279.35	
Trough	Mar 2003	1590.25	-51.5%
1 year gain	Mar 2004	2231.28	40.3%
5 year gain	Mar 2008	2961.25	86.2%
Missing first 12 months			32.7%

Source: Blue Sky Asset Management. FTSE All Share Index.

The message is simple: there are risks to being out of the markets as well as in them.

Why invest now?

You cannot time the markets. Many investors will wait to see evidence that the market has turned, but by then they may well have missed the best gains. Many of the best returns can be shown to come when retail investors find it most difficult to be in the market – during the latter stages of, or just following a crisis.

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