Edition 27

Bespoke Financial Advice Ltd

www.bespokefinancial.co.uk 01392 357563

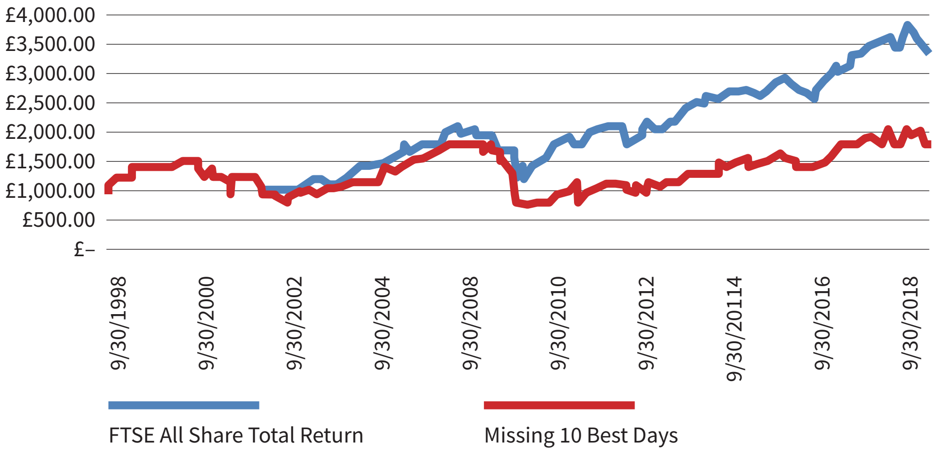
Financial Viewpoint

Time in the market vs timing the market

Why are equities volatile?

A global approach to asset allocation

Time in the market vs timing the market



When it comes to investing, you might have heard that time in the market is better than timing the market.

Time in the market is another way of describing long-term investing. Investors with a time horizon of at least five years (and in many cases longer) buy an asset and hold on to it. They tend to invest with a goal in mind. A good example is someone saving towards retirement which, depending on the stage of their career, could be 20 years or more in the future.

On the other hand, investors who try to time the market buy an asset when the price seems low and aim to sell it once they believe the price has peaked. That means they typically trade more frequently and hold on to their investments for a much shorter period.

Patience is a virtue

How long you are prepared to leave your money in the markets can have a significant impact on your returns.

Returns become more reliable the longer you hold your investments, especially for a period of 10 years and beyond. To put this into context, take a look at the chart above which covers the performance of the FTSE All Share Index since 1998 *(source: Omnis Investments)*.

As the blue line shows, if you invested £1,000 in 1998, it would have risen in value to £3,000 by the end of 2018. That works out as a compound annual growth rate of 5.65 per cent for every year invested. However, the index did not move up in a straight line each year. While annual returns were positive most years, on some occasions they were negative. But by staying in the market, you would have earned a substantial return on your investment.

The red line tells a different story. It shows your returns on that £1,000 investment if you missed the ten days when the FTSE All Share enjoyed its strongest performance. This is entirely possible if you had tried to time the market, which is notoriously difficult to predict over any time frame, even for seasoned investment professionals. As you can see, your returns over the same period would be nearly 50 per cent lower.

A long-term perspective

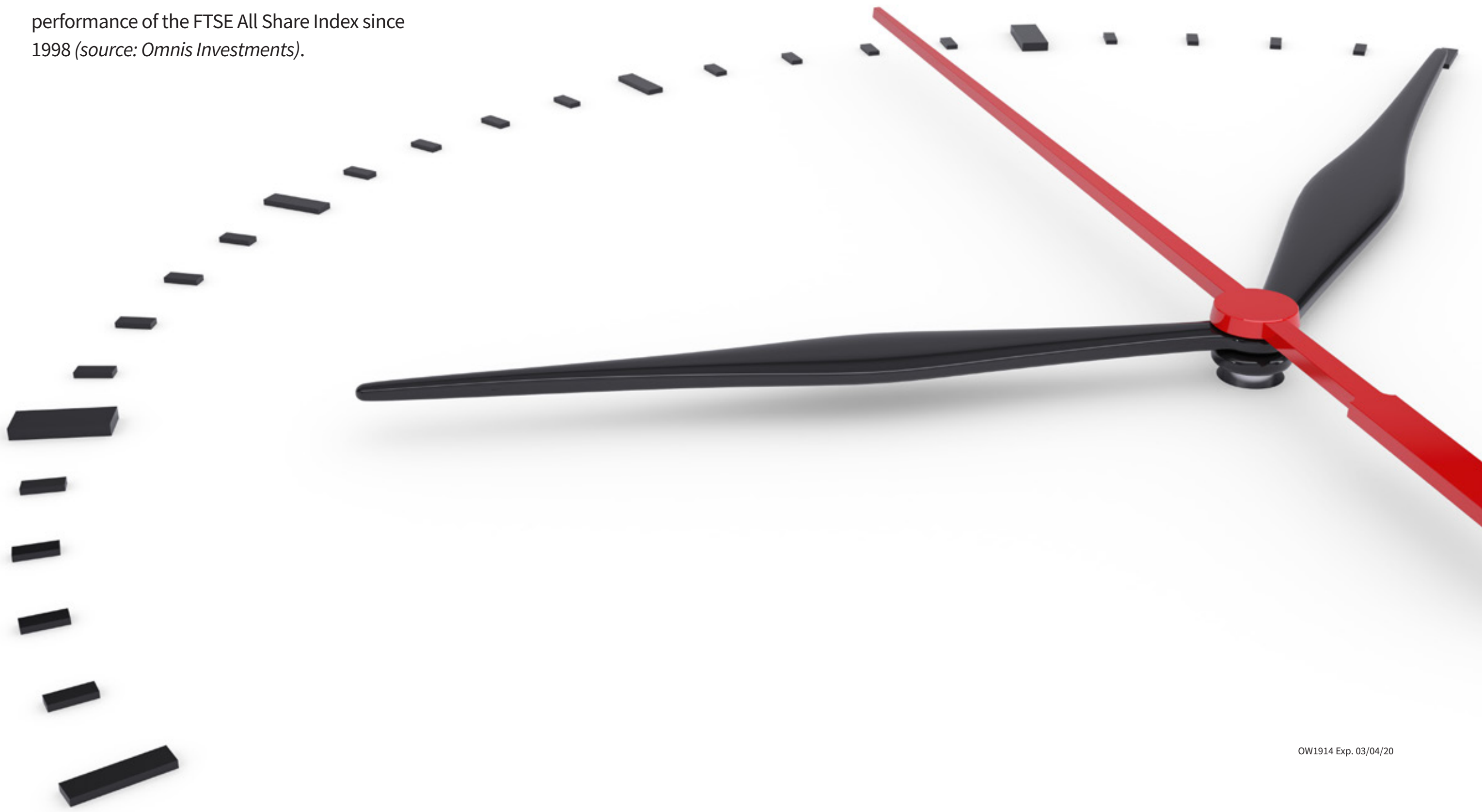
Both the auto-rebalancing Openwork Gaphene portfolios and the actively-managed Omnis Managed Portfolio Service are designed to deliver returns over a period of five to ten years. At a fund level, we also ensure our managers target returns over a similar time horizon.

To find out how long-term investing can help you achieve your goals, please get in touch.

Regardless of whether you invest in the long or short term, the value of your investment and any income from it can fall as well as rise. You could get back less than you invest.

Past performance is not a reliable indicator of future performance and should not be relied upon.

This update reflects Omnis' view at the time of writing (April 2019) and is subject to change.



Why are equities volatile?

The more experienced investors among us will know that investing in equities involves a more volatile journey than some other asset classes, such as fixed income.

What causes this volatility?
When you invest in a bond, you are effectively lending money to the issuer, either a company or a government. In return, you receive a set interest payment and you should get back your principal investment (ie. the face value) once the bond matures (as long as the issuer does not default).

Investing in a share means you are buying a small piece of the underlying company. The value of your holding should be based on the future cashflows it earns. As such, the share price is subject to a range of positive and negative factors which may affect what those cashflows will be worth.

Investors are always looking to the prospects of a business, and the ability to value a company is not a precise science. Therefore, share prices react to new bits of information as they become available. Other sources of volatility include changes that may occur in their industry or the national and global economies in which they operate.

As companies grow the opportunity for equity investors is very attractive, but the periods of volatility are unavoidable.

Know your attitude to risk
The Omnis investment team builds portfolios in line with a client's attitude to risk. Our portfolios provide exposure to different asset classes (equities, bonds, alternatives and cash) that have been chosen based on their potential ability to beat inflation over time, but we can also blend them together to create particular characteristics over the longer term.

Portfolios with a higher allocation to equities experience greater volatility. However, you should get rewarded for the extra risk as shares typically generate superior returns compared to most other asset classes (if you stay invested of course). But if you struggle to withstand short-term drops in value, then your portfolio should be weighted towards cautious assets like bonds.

When you invest in the auto-rebalancing Openwork Graphene model portfolios or our actively-managed Omnis Managed Portfolio Service, you can choose a portfolio suited to your risk profile. The main difference is the allocation to equities - as the name suggests, Adventurous has the highest weighting while Cautious has the lowest.

Volatile {*adjective*}
liable to change rapidly and unpredictably, especially for the worse: *eg, the political situation was becoming more volatile.*

To find out more about the asset allocation within your portfolio, please get in touch.

Regardless of what asset class or portfolio you invest in, the value of your investment and any income from it can fall as well as rise. You could get back less than you invest.

This update reflects Omnis' view at the time of writing in April 2019 and is subject to change.

A global approach to asset allocation

Asset allocation is one of the key tools in our investment proposition to help strike the right balance between risk and reward in your portfolio. It applies to asset classes, such as equities, bonds and cash, and different global regions.

The actively-managed Omnis Managed Portfolio Service (OMPS) and our Graphene model portfolios are all globally diversified. While the largest allocation is to domestic assets, as you might expect from a UK-based service, they also hold investments in developed and emerging markets (EMs).

The thesis supporting the investment in developed markets (DMs) like the US, Europe and Japan is reasonably clear. Their economies are robust, and their stock markets boast some of the biggest publicly-listed companies in the world.

The argument in favour of EMs is based on what we believe are attractive prospects for the region due to its demographics. As we pointed out in one of our newsletter articles in late 2018, most of the global growth in the middle class for the foreseeable future will take place in EMs . An expanding middle class consumes more and generates greater domestic demand, leading to a stronger economy.

A bumpy journey

One reason investors sometimes shy away from EMs is because they are traditionally not as stable as developed markets. These concerns are reflected in the volatility of the region's stock markets. The MSCI Emerging Market Index (the benchmark for the Omnis EM Equity Fund) rallied at the start of 2018 before a strong US dollar, rising US interest rates and idiosyncratic incidents in Turkey and Argentina weighed on performance for the rest of the year. However, the outlook has improved lately as the Federal Reserve has softened its tone and is expected to pause interest rates in 2019, while China has launched stimulus measures to boost its economy. Other EMs, including India, are undertaking structural reforms which should improve sentiment further.

Effective diversification

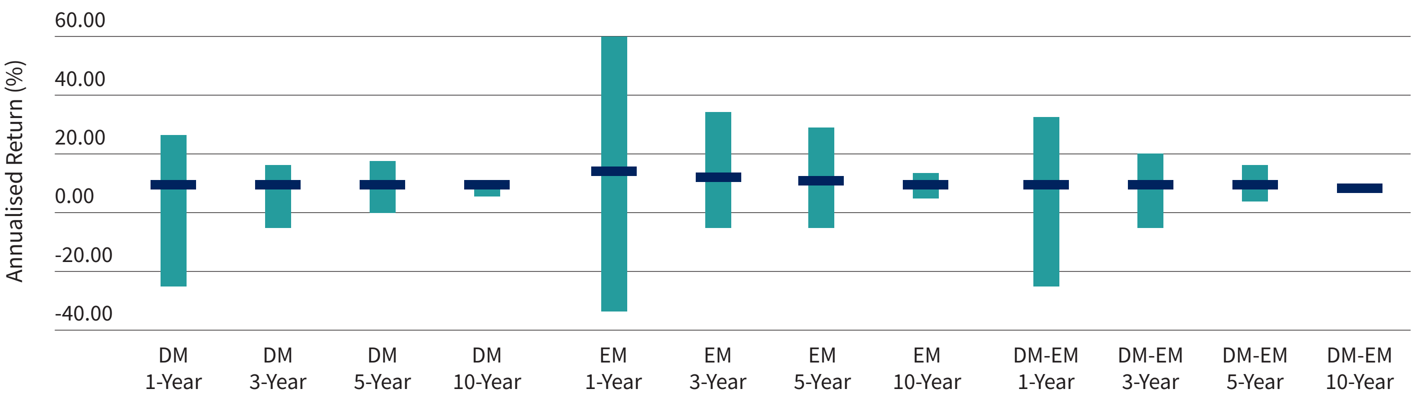
As you can see from the chart, long-term average returns from EMs tend to be higher than developed markets. That's why the allocation to the region in the Graphene and OMPS Adventurous and Balanced portfolios is relatively high compared to similar services available to UK investors (the OMPS Cautious portfolio occasionally adds a small overweight position).

We believe this will allow us to take advantage of what should turn out to be the region's superior growth rates. But as 2018 reminded us, you must be prepared to put up with short-term periods of volatility to secure those potentially attractive returns.

The value of investments and any income from them can fall as well as rise and you may not get back the original amount invested.

Past performance is not a reliable indicator of future performance and should not be relied upon.

Range of Developed & Emerging Equity Returns Over Different Holding Periods



Bespoke Financial Advice Ltd

Suite 9F, Sowton Business Centre
Capital Court
Bittern Road
Exeter
EX2 7FW

01392 357563
david@bespokefinancial.co.uk
www.bespokefinancial.co.uk

Bespoke Financial Advice Ltd