AVOIDING LOCKING IN YOUR LOSSES

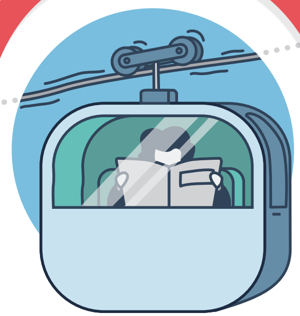
Many investors can feel overwhelmed when markets have large swings. Particularly during downturns, it's natural to think about selling your investment portfolio to protect yourself from further losses, this is also known as crystallising your losses. However, reacting emotionally to sudden changes in the market can often have adverse effects: investors could be locking in permanent losses when there is the potential for markets to bounce back.

Volatility is normal

Stock markets move up and down frequently, as the price of the individual stocks that make up a stock market increases and decreases with demand and supply. These movements can be daunting, but it might be reassuring to remember that in a lot of cases this volatility in markets is normal.

What influences market changes

There are many factors that influence price changes such as company updates, regulation changes, or even consumer sentiment. And these can be positive or negative. When multiple companies move in the same direction, the stock market as a whole can experience an upward or downward shift.



Investing for the long term

Although stock markets move up and down daily or over the course of a year, or several years, they have historically trended upwards over longer periods of time. For investors who have a long-term investment horizon, selling your investments on a short-term view, regardless of price, can result in losing out if the market bounces back.

Behavioural biases

Reacting instinctively to situations is a human characteristic established over millions of years of evolution, when making a wrong move could have proved fatal, developing into our instinctive fear of loss. This means investors can often focus on the possibility of a short-term loss rather than the potential for a long-term investment gain.

Time invested in the market vs. timing the market

Rather than selling investments during a downturn, it might be useful to think about the phrase 'it's time in the market rather than timing the market'. Evidence suggests that trying to pick the right time to buy and sell is almost impossible and selling at the wrong time may lead to missing out on a market recovery.

If in doubt…

Everyone's situation is different, so speaking to a financial adviser before making any decisions is a good first step. They may be able to tailor an appropriate long-term investment plan to meet your specific needs. They may also be able to advise you of an appropriate course of action if you are nervous about potential losses to your investments due to volatility in the markets.

Important information