

INSIGHT



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Today's market falls in the context of history



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Context is an important tool when it comes to investing. All investors around the world will be feeling the emotional pressures of the recent rapid equity market falls, either because they can remember previous falls and times of uncertainty, such as the Global Financial Crisis (2007-2009), or as younger investors, they have not yet experienced material market falls. We obviously do not have a crystal ball to see into the future, but the global equity market falls we have seen since January - of under 20% or so at the time of writing - sit well within previous falls since 1970. In terms of expected ranges of outcomes, we generally estimate that 95% of the time annual equity market returns should sit within an approximate range of +45% to -35%. Outliers do exist beyond these limits.

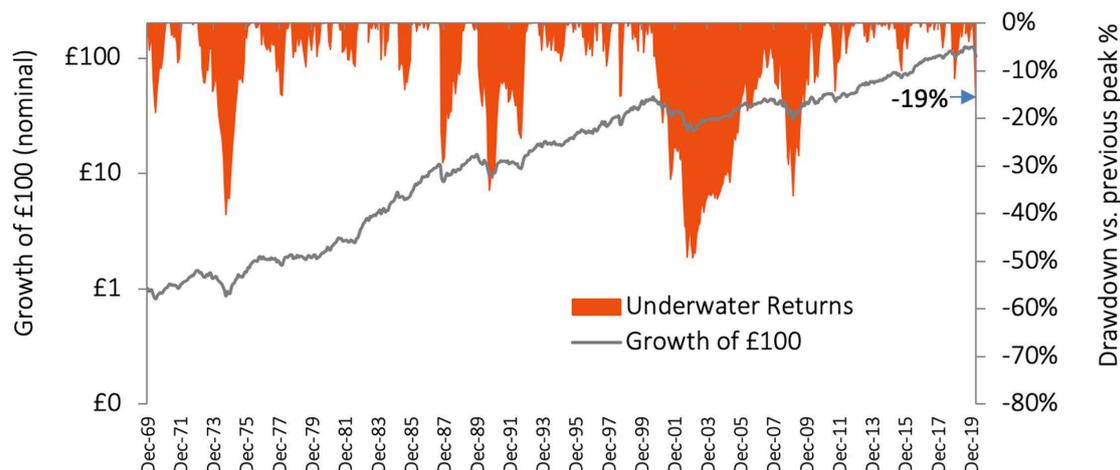


Figure 1: Today's falls still sit well within both history and expectations (1/1/1979 to 18/03/20)

Data: Global equities - MSCI World Index (net div.) TR in GBP Morningstar Direct © All rights reserved.

The Table below provides numbers around both the depth and recovery times for each of the five largest falls since 1970 in the figure above.

Peak date	Decline	Trough date	Recovery date	Decline (m)	Recovery (m)
Sep-00	-49%	Jan-03	Dec-10	29	95
Jan-73	-40%	Sep-74	Jan-76	21	16
Jan-90	-35%	Sep-90	Jan-93	9	28
Sep-87	-29%	Nov-87	Mar-89	3	16
Jan-70	-19%	Jun-70	Jan-71	6	7
Jan-20	-19%	-	-	-	-

Table 1: Declines and recoveries of global equity markets (1/1/1970 to 18/3/2020)

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How deep or long the current fall will be, no-one knows. There will certainly be more rises and falls to come. Yet we should take some comfort from the fact that things have been just as challenging at times in the past, albeit for very different reasons. Recovery times sit well within the investment timeframes of most investors. It is worth noting that an investor in global equities today has, in nominal terms, more money than they did at the end of April 2018, despite the market falls in late 2018 and those recently experienced.

These are tough times for all of us and for our Nation, but the words of wisdom that we always return to at these times are those of the legendary investor John Bogle:

■ ‘This too shall pass’

It will.

From an investment perspective the key message is to be brave and disciplined as a fall only becomes a loss if you sell. Remember, we are always available to take your call or answer your emails. Please feel free to contact us if you have any specific questions or simply if you would like some reassurance.



Richard Wood and Igors Alferovs pictured here with the legendary investor John Bogle (centre)

Other notes and risk warnings

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