Santander
Asset Management

Back to basics

Your quick guide to investing through challenging times

Without doubt it's been a tough start to 2020 for investment markets. Major share indices like the FTSE 100, Dow Jones Industrial Average and S&P 500 made headlines, entering bear territory for the first time in over a decade.

That means they suffered lasting falls of over 20%, and it happened quickly. Beginning as a local story for China, Coronavirus (COVID-19) emerged at pace as a pandemic, upending lives, economies and markets all around the world in a matter of weeks.

As an investor, it's perfectly normal to be worried during a downturn, especially one as sharp and unfamiliar as we're experiencing now.

When the going gets tough, it's time to revisit the basic principles of investing.

Getting back to basics

1. Investments tend to beat savings over time

While it's always important to remember what's happened before is no guarantee of what will happen in the future, history has taught us that, over the long run, investments have tended to perform better than savings when it comes to keeping up with rising prices. That's through recessions, depressions, financial crises, world wars and countless other events.

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2. It's time in the market that really matters

If you're investing for the long term, which is considered to be for five years or more, it's reaching your long-term goal that matters most. Once you've committed your money, shorter term ups and downs can generate distracting noise that may risk you 'selling low and buying high' as an emotional reaction to what is going on. But time and again, studies have shown that staying invested throughout is likely to lead to better outcomes. **Though past performance is not a guarantee of future performance, the longer you stay invested, the more likely you are to see positive returns.**

3. Spreading your investments helps manage risk

Different types of investment behave in different ways, at different times. The COVID-19 downturn has been no exception so far. For example, as share prices have dipped, many bond prices have been rising. Some sectors are doing better than others too. The airline, tourism and travel and banking sectors are among the biggest losers. Pharmaceuticals, logistics firms and online service providers, on the other hand, may stand to benefit.

The point is, if you're holding a mix of investments, perhaps through one or more funds, it increases the likelihood that you're always invested in something that is going up, even when other investments may be doing down. A downturn isn't good news, but in context your investment portfolio may not be as badly affected as you first think.

Remember the risk-return trade-off?

The higher the level of risk you take with your investments, the higher the potential returns if things go your way and the higher the potential losses if they don't. Conversely, the lower the level of risk you take, the lower the potential for both returns and losses.

If you chose an investment fund or funds to match your personal risk-return trade-off, that should be reflected in how your investments are performing now, as at any other time. This is where the expertise of your fund manager can make a positive difference for you, managing the fund to keep it within its risk-return profile in all market conditions.

For more on the risk-return trade off you can read our **Risk matters: an introductory guide** here.

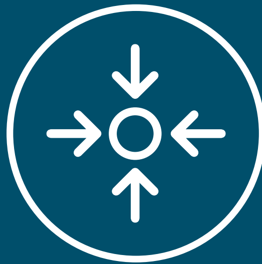
4. Downturn is followed by recovery

It's a fact that markets and economies run in cycles. Between December 1854 and summer 2009 there were 33 of them, according to the US National Bureau of Economic Research[1]. That's why ups and downs are an unavoidable part of the investment journey, whatever causes them. It's also why we can be confident that a downturn will be followed by recovery.

The four stages of a cycle:

Peak

The economy hits a high point.

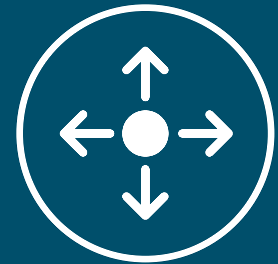


Contraction

Growth in the economy is going down.

Trough

The contraction comes to an end.



Expansion

The economy is on the up again.

As we've seen over recent weeks, shares tend to fall out of favour as the cycle is contracting. Investments like gold, cash and government bonds may become more popular. But shares tend to regain popularity quickly. That's because investors want to buy them at lower prices in hopes of benefitting when the economy expands.

Do I need to take action?

This will always depend on your personal circumstances. For example, if you have savings you've retained for emergency purposes, you can use these to cover short term needs and they can often be the best place to turn first if you need. Based on the investment principles we've just revisited, the right choice for many people would be to leave your investments as they are - hold tight and stay focused on the longer term. Recovery and growth will come again.

But it isn't always possible to do this and there are exceptions to every general rule. If you're at all unsure about what to do you may find it helpful to talk things through with a financial adviser.

Get the latest

Stay up-to-date with our latest views on financial markets here.

[1] NBER - US Business Cycle Expansions and Contractions.

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Let's be clear!

Investment terms explained

Bear: A bear market is often defined as having seen falls of at least 15-20% over at least two months. An investor who is 'bearish' is one who feels pessimistic about the outlook.

Bonds: A bond is a loan issued by a government or a company. When you buy a bond, the issuer promises to pay a certain amount of income until the bond redeems and is repaid by the issuer. The strength of that promise varies by the issuer of the bond. This is known as creditworthiness.

Diversification: Spreading your money across different investments to help manage risk.

Index: A way of tracking the overall performance of a basket of individual investments of a similar type. For example, the FTSE 100 index tracks the performance of shares in the 100 largest companies by market value on the London Stock Exchange.

Portfolio: a group of investments that are managed together to meet a particular objective.

Shares (often referred to as Equities or Stocks): In investing, this is a share of ownership in a company. Investing in a fund gives exposure to underlying share prices without investors actually owning the shares themselves.

Important Information

This material is for information only and does not constitute an offer or solicitation to buy or sell any securities or other financial instruments, or to provide investment advice or services.

Past performance is not a guide to future performance. The value of investments and any income is not guaranteed and can go down as well as up and may be affected by exchange rate fluctuations. This means that an investor may not get back the amount invested.

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