



FINDING CERTAINTY DURING TURBULENT TIMES

Markets are falling and investors are scared. This is normal.

The first half of the year saw the worst performance for risk assets in a long time.

Fear is as a perfectly natural behaviour for humans in an environment of stress. Account values dropping is a stressful experience. We need to acknowledge what we are feeling and understand why. If we don't, it usually leads us to make decisions to solve for our short-term discomfort without appreciating the fact that we end up trading away our better futures.

It's funny that once we've experienced a painful decline, people seem to think that the worst is ahead of us. That may be the case, but it's more likely that the worst is behind us.

We're in a bear market. We just experienced a massive amount of pain. Could things get worse? Yes. Will they eventually get better? Absolutely. – Michael Batnick

What do you do in times like this? What do we say to our clients? How do you respond when your emotions are as volatile as the markets?

In times like these the right question to ask is: "What should I NOT do?".

With history being our guide, the answer is very simple. If you have a good plan that is aligned with your goals and what you value most, the correct advice is to do... nothing. We know our emotions and physical bodies are primed for action in a time when inaction has always proven to be the best response. Solving your short-term comfort comes at a big price. History keeps on teaching us the same lesson and most people never learn. We put our future and retirement at risk by having a fear-driven reaction to very normal (and potentially protracted) market corrections.

What do we know?

That market corrections are normal and to be expected. That we cannot predict the future with certainty is another truth. Markets outperform other asset classes over time - the caveat is time. The same with compounding. It works over the long term if left uninterrupted.

It's normal to be fearful and pessimistic in a crash but if you're investing for the long-term then doing nothing is often the best course of action. This is a very simple truth but easier said than done. Go ahead and feel the fear, just don't give into it. Reacting to fear is the root of almost all unforced errors that constitute a lifetime of investment failure. What feels so deeply right in terms of human nature itself always turns out to be deeply wrong when it comes to long-term investing.

The higher return of the market comes at a price. It is not a penalty. You are rewarded with higher returns over time for stomaching the inherent volatility. It is a feature of the markets and not a bug. This reward actually has a very specific name and it is called the risk premium. Take away that risk and you can expect returns in line with cash.

You have a strategy in place. You have a portfolio in place that was intentionally structured and is managed to give you the highest probability of funding your future need. This process acknowledges the base truths mentioned above and understands that market declines will be an expected part of this journey. It assumes that there will be rainy days - and yes, right now it is raining. But don't change your long-term plan. It is not market misbehaviour but our own misbehaviour that will cause us to steer off course. Don't panic!

Acknowledge your fear. Reflect on your understanding and experience of evidenced investing knowing that "this time is different" thinking has historically led to poor decision making. It is better to tolerate the mental stress rather than cause long term financial devastation. When we play the long game, figuring out what to do becomes a whole lot easier.

Having a plan that reflects your deepest values and sticking to it is the game that wins. Action in times of market stress has proven to be a loser's game.

What this simply means is that you want to stick to your circle of competence for that is where you have the greatest chance of doing well as an investor and rarely outside of it.

Legendary US female soccer team coach Jill Ellis explained that her successful team held onto a maxim that the US Navy Seals live by – "Hold Fast and Stay True": When the storm comes you need to hang on and stay true to your direction and compass that will guide you through the storm. Most people who start into investing with a sound process fall prey to the emotions of envy, greed or fear and abandon their process.

The ones who do well in the long run are those who stay the course. If not, you change your future and very likely not for the better. It is in times like these that we see self-sabotage. Trust the process. It works in the long run. Your future depends on it.

The future is a real place, and you will be there one day. - Jamie O'Donoghue

Great advice from Andy Hart – Humans Under Management:

The great advisers stand tall during market extremes. Our principles and practices become even more significant in depressed times. It will always be the case that we correctly set up our client's investment portfolios on day one, then spend the rest of our days ensuring they stick to the portfolio we set up. It sounds pathetically easy, but as we all know it's incredibly difficult in practice.

The only way that we could capture the full compounded return of equities – which is essential to the plan – is to ride out unforeseen temporary declines. Your best plan cannot survive getting in and out of the market. Act on your plan, not on an impulse or any sporadic event.

Hold Fast and Stay True!

At 2IP we do and we are confident about the future.

We have experienced many storms before and have a deep understanding of how to respond appropriately. Our deeper understanding and discipline will trump our short-term discomfort.

The above article was written by Marius Kilian

Sources

Andy Hart – Humans Under Management

theirrelevantinvestor.com/2022/07/05/the-worst-first-half-ever/

[Nickmurray.com](https://nickmurray.com)

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