

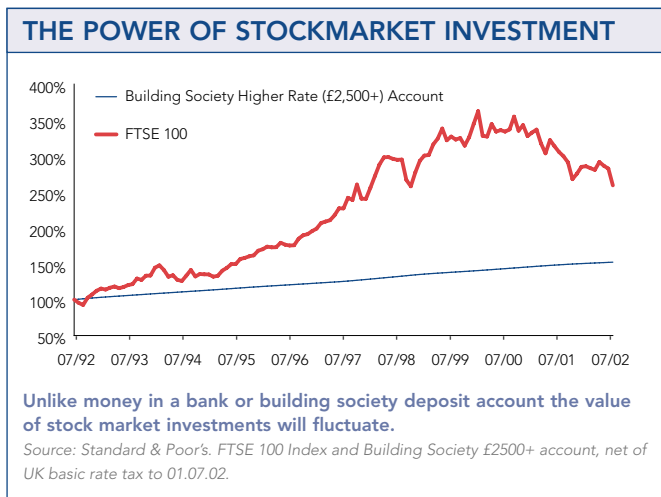
# When doing nothing is best

## Should stockmarket uncertainty affect your investment strategy?

During times of stockmarket uncertainty, it's only natural to be concerned about how this affects the value of your investments. Investors often ask what action they should take in response.

Many experts agree that investors will usually be better off resisting the temptation to make changes to their long-term investments simply because of short-term stockmarket movements. If your personal circumstances and investment goals are unaltered, and you are still able to take a medium to long term view, then it is probably appropriate to 'sit tight' through any periods of uncertainty.

If you have any questions about what strategy may be right for you, we strongly recommend that you discuss your options with your Independent Financial Adviser.



## Why market timing doesn't work

Few investors would dispute the fact that, over the longer term, stockmarket investments have significantly outperformed the returns available from bank and building society deposit accounts. Investors also know that stockmarkets are prone to short-term fluctuations and sometimes these can appear to be quite sharp.

It can be tempting during times of stockmarket uncertainty to delay making new investments or even consider selling existing investments and try investing again when values are lower - this strategy is known as 'Market Timing'.

**“We believe that there are two factors which mean that, whilst ‘market timing’ sounds fine in theory, it seldom works in practice.”**

### 1) Market Timing - It's too easy to miss the gains

Just as the sharp falls in stockmarkets tend to be concentrated in short periods of time, the best gains are similarly concentrated. Because these gains often occur just before, or after, a market fall - an investor who tries to time investments is highly likely to miss the best gains.

Fidelity has analysed the returns from the UK, US and other stockmarkets over the period 1988 - 2001. This shows that missing just a few days' stockmarket performance can significantly impact performance.

MARKET	INDEX	STAYED FULLY INVESTED	BEST 10 DAYS MISSED	BEST 20 DAYS MISSED	BEST 30 DAYS MISSED	BEST 40 DAYS MISSED
UK	All Share	12.1%	9.2%	7.1%	5.3%	3.7%
USA	S&P 500	14.4%	10.9%	8.2%	6.0%	4.1%
Germany	DAX 30	12.4%	7.7%	4.4%	1.7%	-0.6%
France	CAC 40	14.6%	10.5%	7.5%	4.9%	2.6%
Hong Kong	Hang Seng	16.1%	8.7%	4.2%	0.5%	-2.7%

All figures show annualised, total returns, from 31 December 1987 to 31 December 2001, in local currency terms. Source: Fidelity Investments

Missing the best 10 days (equivalent to about one day a year) has reduced annualised returns from the US and UK stockmarkets by around a quarter, and even more in other markets. Missing the best 40 days (just about four a year) has seen UK and US market returns cut by over 70%, with even greater lost returns in the other markets. Far from minimising investment risk, market timing is in fact a high risk strategy.

# Investing in volatile markets

## 2) Market Timing - Is it worth the risk?

Theoretically, the extra return you could achieve if you could get it right is actually not that great and is certainly not significant enough to compensate for the returns you would sacrifice if you got it wrong.

Another way of looking at this is to put aside the risks of market timing, and ask how big the benefits would be in the unlikely scenario that an investor could get it right. We've taken three hypothetical investment strategies:

- investing each year at the market low – the 'best' strategy
- investing each year at the market high – the 'worst' strategy
- investing at a 'random' date – a typical investor's strategy

**Choosing the 'right' day to invest in stockmarkets makes very little difference over the long term.**

MARKET	HIGH POINT	1 JANUARY	LOW POINT
UK	14.1%	15.4%	16.1%
USA	12.9%	13.6%	14.0%
Germany	10.5%	11.2%	11.5%
France	14.3%	15.4%	15.9%
Hong Kong	14.8%	16.8%	17.6%

All figures show annualised, total returns, from 31 December 1971 to 31 December 2001, in local currency terms. Calculated using MSCI country indices. Source: Fidelity Investments

Not surprisingly, investing at the market low produces a better return than investing at the market high - but in each case, the difference in returns between the high and low point for each market is surprisingly small.

Investing at the 'random' date - in this case 1st January - produces returns between these two extremes and the difference between investing at a 'random' date and the market low is only around 0.5% on an annualised basis.

Investors can take reassurance that they do not need to be timing experts to benefit from stockmarket investment. Even the 'unlucky' investor who every year for 30 years invests on the worst possible day has enjoyed a very healthy return from stockmarket investments.

**Remember time, NOT timing, is the key to investing.**

Please note that we cannot promise returns like these in the future and you should be aware that the value of an investment can fall as well as rise.

## Take some good advice

If you have an Independent Financial Adviser, they have probably seen many periods of stockmarket volatility and know that long term investors have made money almost irrespective of when they invest.

Research conducted by Fidelity Investments showed that investors who bought funds through a Financial Adviser achieved higher returns than those with out an adviser.

Over 10 years direct investors achieved an annualised return of **5.6%** per annum. In contrast, advisers' clients secured **11.9%** p.a. - more than double than that of the direct client. A crucial advantage that the advisers' clients enjoyed was that they were less likely to sell their investments during periods of stockmarket uncertainty because they were advised against this. As a result, investors who remained continually invested achieved better returns.

