



**ECFS**

*Independent Financial Advisers*

# UKRAINE- RUSSIA CRISIS

Why investors should take  
a long-term perspective  
and not panic

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# 01

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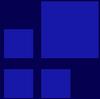
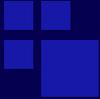
## UKRAINE- RUSSIA CRISIS

Why investors  
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IT'S ONLY HUMAN NATURE TO WANT TO SELL YOUR INVESTMENTS IN A DOWN MARKET. WHY? MOST OF US ARE RISK-AVERSE AND WANT TO AVOID LOSING MORE OF OUR MONEY. HOWEVER, WHEN IT COMES TO INVESTING, A LOGICAL APPROACH AND A LONG-TERM MINDSET ARE REQUIRED TO OUTSMART THE SHORT-TERM DOWN MARKETS.



**O**n the 24 February the Russian President, Vladimir Putin, ordered a military invasion against Ukraine. A war that many considered unthinkable had begun. Russia's invasion of Ukraine has sent shockwaves through pretty much every asset class across the globe. But if you are a long-term investor the best course of action for most individual investors is to keep calm and carry on.

Selling into a falling market is the opposite of what successful investors do. Equally important is the fact that no one knows what Russia's invasion of Ukraine ultimately means for everything from energy prices to monetary policy. And then there's the case that, historically speaking, stocks tend to recover quickly after being derailed by international turmoil.

### **LONG-TERM MINDSET**

It's only human nature to want to sell your investments in a down market. Why? Most of us are risk-averse and want to avoid losing more of our money. However, when it comes to investing, a logical approach and a long-term mindset are required to outsmart the short-term down markets.

Trying to navigate the ups and downs of market returns, investors seem to naturally want to jump in at the lows and cash out at the highs. But no one can predict when those will occur. It's common investment knowledge to 'buy low and sell high'. But if investors decide to panic sell their investments because the market has a bump in the road, they're essentially following the opposite strategy – 'buying high and selling low'.



## **TIME-TESTED STRATEGIES**

Managing the volatility of our emotions is more important than the volatility of the markets, which we can't manage. There are a number of time-tested strategies to help investors deal with market volatility. Two of the most prevalent are: invest for the long-term, and maintain realistic performance expectations when it comes to returns.

By coupling these strategies with maintaining proper portfolio diversification and avoiding the pitfalls of market timing, investors have the foundation needed to help manage their overall exposure to market volatility.

## **HISTORICAL AVERAGE**

Historically, the stock market has been up more than down. Often after a lengthy bull market, some investors may lose sight of the fact that their investments could generate negative returns. In order to keep market volatility in perspective, it's important to maintain realistic expectations about your investments, especially if returns move closer to their historical average.

It's important to focus on long-term goals and not become distracted by short-term volatility. While losing money in the financial markets is never easy to accept, remember the old adage: Time is on your side. Typically, the longer an investment portfolio is held, the more likely overall positive results are realised. The lesson here is to prepare for the long haul and try not to overreact to periods of uncertainty. ♦





# 02

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## FOCUSING ON LONG- TERM HORIZONS

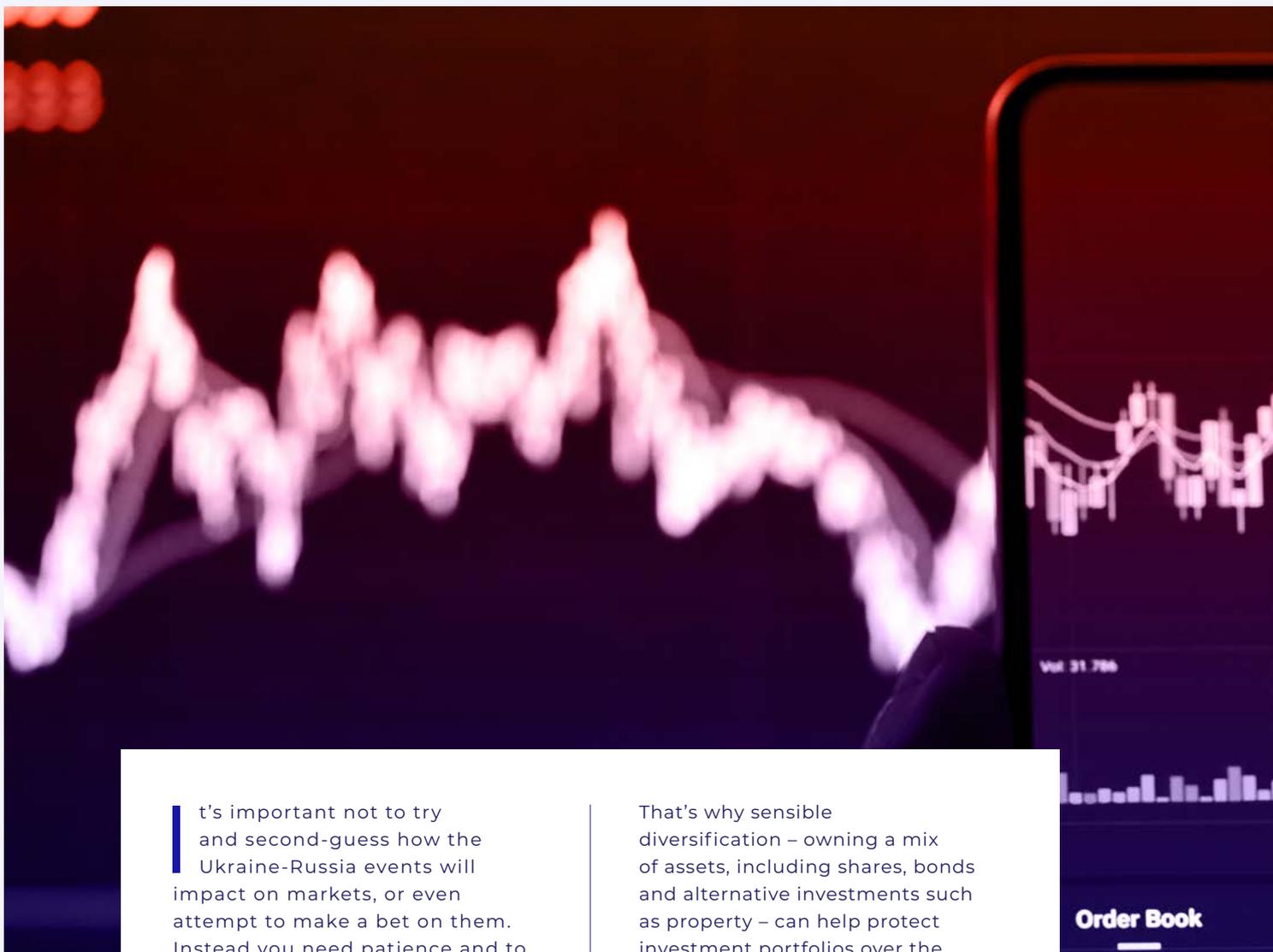
A strategy that reflects  
your risk tolerance and  
time horizon.

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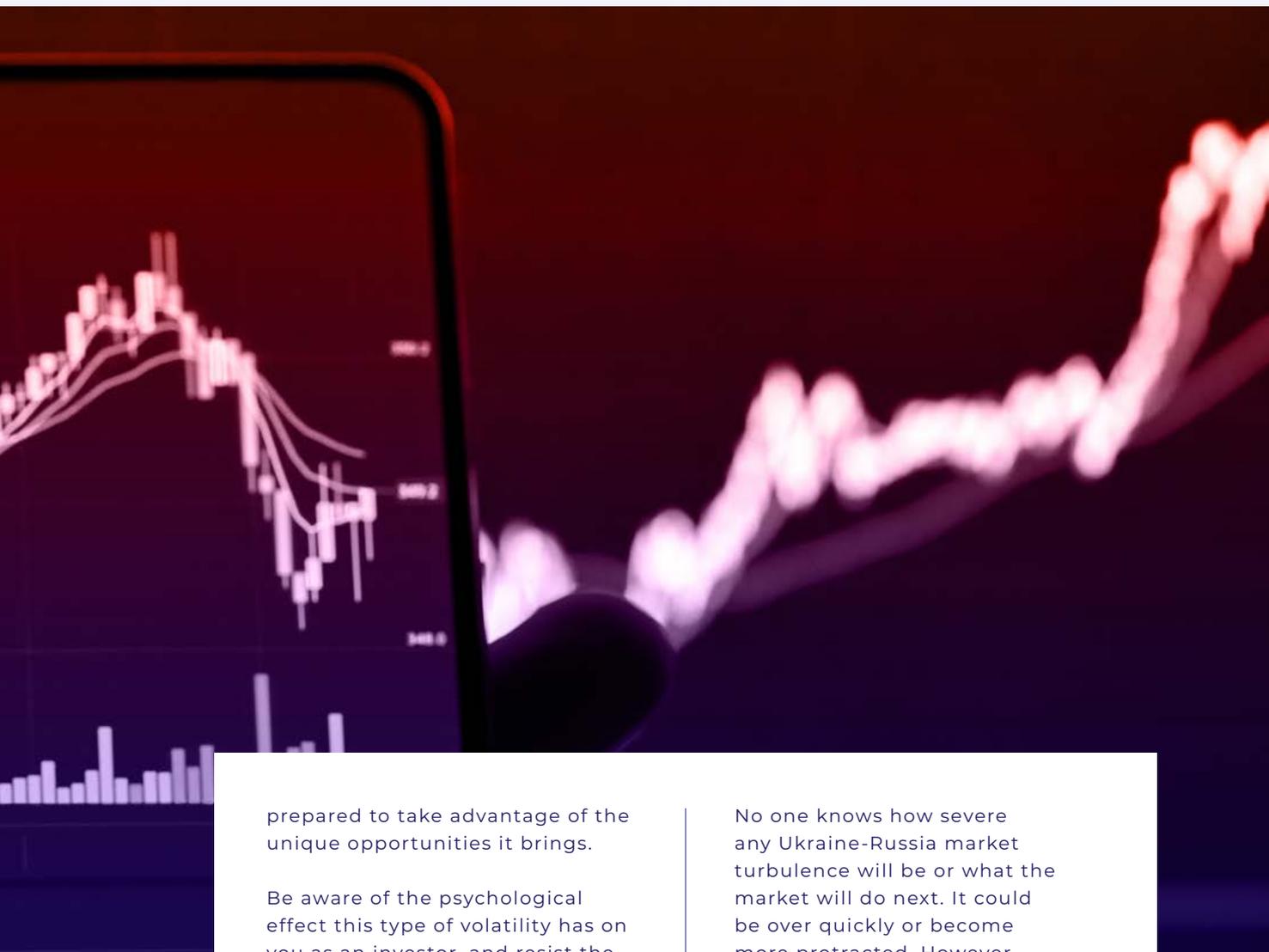
It's important not to try and second-guess how the Ukraine-Russia events will impact on markets, or even attempt to make a bet on them. Instead you need patience and to avoid panicking. Focus on your long-term horizons of at least five to ten years – investment periods that have historically fared much better.

When the markets are going down, it's only natural we are panicked and we fear losing more of our money. We understandably want to take action to protect whatever is left of our investments. Our brains are not wired to accept losses. So, our natural reaction to losses during a market downturn is flight, not fight. Panic selling is driven by fear, market sentiment and short-term noise.

That's why sensible diversification – owning a mix of assets, including shares, bonds and alternative investments such as property – can help protect investment portfolios over the long term. When one area of a portfolio underperforms, another part should provide important protection.

#### **RISK TOLERANCE AND TIME HORIZON**

If you have a well-diversified portfolio, then it's more important than ever to stay the course. You have a strategy in place that reflects your risk tolerance and time horizon, so remain committed. This will help you navigate through periods of uncertainty when some other investors may be panicking or acting out of fear. Volatility is not all bad, as long as you are



prepared to take advantage of the unique opportunities it brings.

Be aware of the psychological effect this type of volatility has on you as an investor, and resist the urge to be reactive. When you turn on the radio or television, or log on to Twitter or Facebook, you might assume volatility is a terrible thing, requiring all investors to react and make changes to their portfolio immediately.

#### **PROPER DIVERSIFICATION AND PERSEVERANCE**

It's important to understand that this movement is not all bad for investors. Some commentators may talk about volatility as a detriment to markets and investors, but not mention the opportunities that arise for investors during periods of market volatility.

No one knows how severe any Ukraine-Russia market turbulence will be or what the market will do next. It could be over quickly or become more protracted. However, no matter what lies ahead, proper diversification and perseverance over the long term are very important.

#### **UPS AND DOWNS OF DIFFERENT TYPES OF MARKET CONDITIONS**

It's likely that these events will continue to have an impact on markets over the coming months and even years. However, major events causing markets to fall, particularly in the short term, is something we've seen time and time again. And it doesn't mean that markets won't recover, so try not to worry too much.

History shows again and again that the ups and downs of different types of market conditions are part and parcel of investing, and there have been many times in the past when events have caused short-term corrections.

**EXPERIENCE OF DEALING WITH DIFFERENT TYPES OF MARKET**

Stock markets around the world are experiencing some very turbulent activity, so investors will

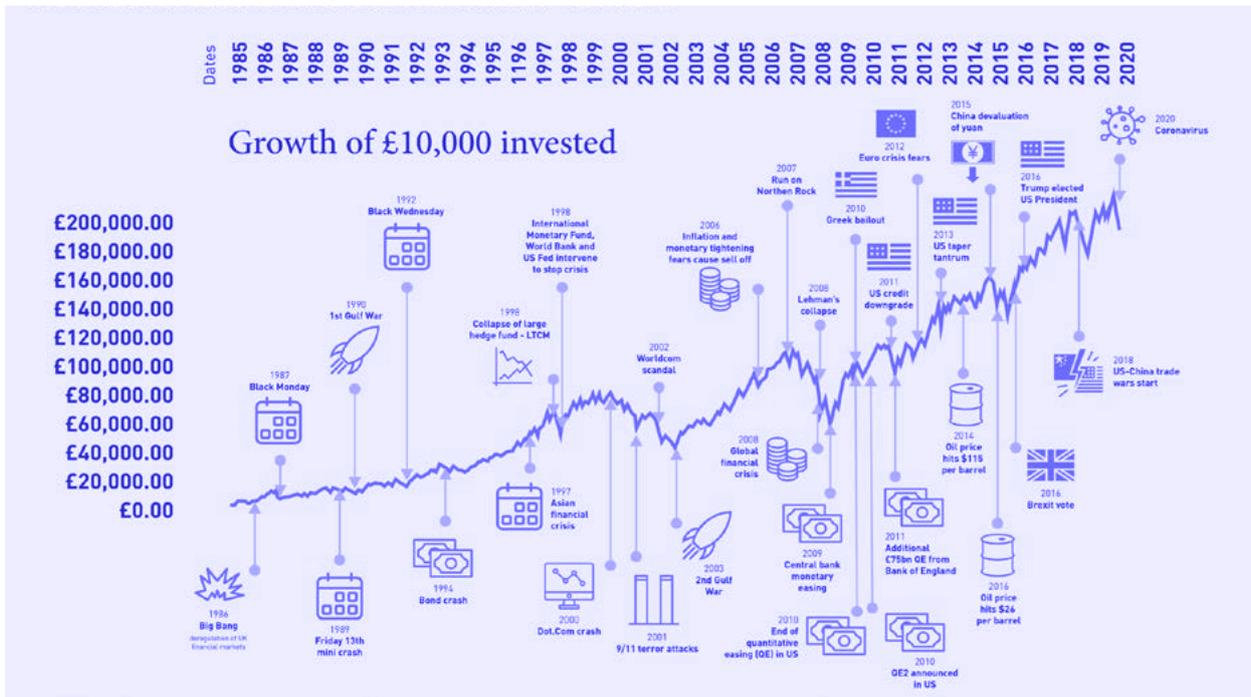
need to be able to cope with some pain. The key to remember when stock markets fall is to remain calm. Don't panic. Don't frantically sell. If you can avoid it, don't even log into your investment account.

At moments like this, the skills and experience of professional financial advisers come into their own, helping to take the emotion out of your decisions and tactically exploit market dislocations and rebalance portfolios appropriately. ♦

**SURVIVING THE STOCK MARKETS UPS AND DOWNS**

What history teaches us about the current volatility.

Source: FinancialExpress FTSE® All - Share Index total return with dividends reinvested from 31 December 1985 to 27 February 2020. These figures don't take in to account any charges or impact of inflation. Figures refer to the past and performance isn't a reliable guide to future performance.





IF YOU HAVE A WELL-DIVERSIFIED PORTFOLIO, THEN IT'S MORE IMPORTANT THAN EVER TO STAY THE COURSE. YOU HAVE A STRATEGY IN PLACE THAT REFLECTS YOUR RISK TOLERANCE AND TIME HORIZON, SO REMAIN COMMITTED.

# 03

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## SIX PRINCIPLES OF INVESTING

How to invest your  
money and avoid  
costly mistakes.

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### **1. HAVE A STRATEGY AND STICK TO IT**

It is one thing to have a target, but a sound investment strategy can be the difference between simply hoping for the best and actually achieving your investment goals. You can review your plan regularly with your professional financial adviser and make adjustments when necessary, but staying focused on your plan will help you to not be distracted by short-term market uncertainty.

### **2. THINK TWICE BEFORE PUTTING ALL OF YOUR MONEY IN CASH**

Putting all of your money in cash can seem appealing as a safe and secure option – but inflation is likely to eat away at your savings as we have started to see recently, with UK inflation rising to its highest level in almost 30 years.

Add to this rising energy costs that could worsen any inflationary shock and sap economic growth. For most people with longer-term investment plans, cash needs to be supplemented with investment in other asset classes that can beat the perils of inflation and offer better capital growth potential.

### **3. DIVERSIFY AND ALWAYS CONSIDER YOUR INVESTMENTS AS A WHOLE**

When markets are fluctuating, it's all too easy to worry about the performance of certain investments while forgetting about the bigger picture. But when one asset class is performing poorly, others may be flourishing in the same market conditions. A diversified portfolio, including a range of different assets, can help to iron out the ups and downs and avoid exposing your portfolio to undue risk.



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#### **4. START INVESTING EARLY IF YOU CAN**

As a general rule, the earlier in life you start investing, the better your chances of long-term growth. Compound growth (the ability to grow an investment by reinvesting the earnings) is a powerful force but it takes time to deliver. The right time to invest is when you and your financial adviser have formulated a clear financial plan that requires growth.

#### **5. 'ACTIVITY BIAS': THE URGE TO 'JUST DO SOMETHING'**

Some investors suffer from what behaviourists call 'activity bias': the urge to 'just do something' in a crisis, whether the action will be helpful or not. When investments are falling in value, it can be tempting to abandon your plans and sell them – but this can be damaging because you won't be able to benefit from any recovery in prices. Markets go through cycles, and it's important to accept that there will be good and bad years. Short-term dips in the market tend to be smoothed out over the long term, increasing the potential for healthy returns.

#### **6. NO SUBSTITUTE FOR A STRATEGY THAT'S TAILORED SPECIFICALLY FOR YOU**

Every single investor's needs are different and, while the points above are good general tips, there's no substitute for a strategy that's tailored specifically for you. What's more, in volatile times, professional financial advice can help you take the emotion out of investing and provide an objective view. It may just be the best investment you ever make. ♦

# 04

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## BEHAVIOURAL PATTERNS

What shapes the way  
we invest, for better  
or worse?

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Investors should keep things in perspective and not overreact to headlines. Although equities may fall more in the near term, historically market drawdowns due to past military conflicts did not last very long and were mostly buying opportunities.

But when it comes to money and investing, understandably we're not always as rational as we may think. Every human being is driven by emotions – more than we would like to admit. Emotions are the key drivers of our behaviour, and these behavioural patterns shape our way of investing, for better or worse.

Investors know they shouldn't let emotions or impulses drive their investment choices, but many just can't help themselves, according to new research that has revealed half of British investors (50%) admit to having made an impulsive investment decision, with two-thirds (67%) going on to regret it.

#### **INVESTMENT DECISIONS**

When asked what influenced their investment decisions, social media topped the list, with a third (32%) of investors citing it as a factor, closely followed by friends (31%) and the fear of missing out (30%). The research also showed separating emotions from investments is hard no matter what it is investors are feeling. A third (34%) of them have made an impulsive investment decision while excited, a fifth (21%) when feeling impatient and 16% have made a decision in fear.

More broadly, just under half (47%) of investors have admitted they

often feel anxious about their investments and two-thirds often feel excited when checking on their investments. Anxiety and excitement can also lead to other bad investment habits, with 62% feeling the need to constantly monitor their investments to succeed, meaning they could be prone to react to short-term fluctuations in the market.

### **MARKET OPPORTUNITIES**

Feeling an emotional connection to your investments doesn't always have to be a bad thing, especially if you use it as a tool to invest in funds you feel passionate about. However, when your feelings start to cloud your decision-making, it's time to take a step back. By understanding your emotions, it's easier to manage them and create a diversified portfolio that does not just take advantage of market opportunities but can also weather any storms.

It's understandable that many investors enjoy the thrill and excitement of investing. One compromise investors can make is the 'core-satellite approach'. Investors may want to put their money into something stable and less exciting, and then add a small, satellite component of investments that give them more enjoyment, keep them engaged and give them an emotional reward – but without causing investors to make any decisions they may regret. ♦

*Source data: [1] All data, unless otherwise specified, is taken from 2,000 respondents of a representative sample size conducted by Censuswide in September 2021. All respondents were 18+ and had previously invested money.*





# INVESTING IN THE FUTURE YOU WANT

We understand the impact your wealth has today and for generations to come. That's why we work with you to help your investments create the future you want. We listen to you and build our service around your vision.

To discuss your options, please contact us for further information – we look forward to hearing from you.

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