

Stay the course for best result

Rakesh Shah

We all understand that a healthy mind and body needs good nutrition, regular exercise and adequate rest. Good, deep sleep enables the body to rejuvenate and recover from the stress and strain of our daily activities.

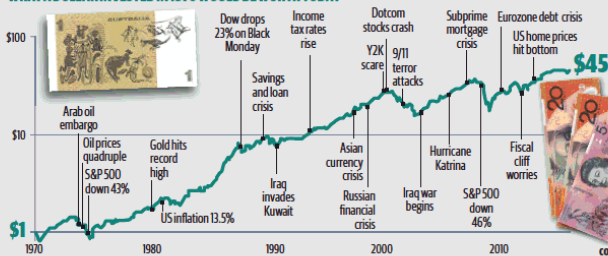
Just imagine if your mind and body never got to rest, you'd be a mess. The same can be said for a portfolio that is never allowed to rest, always chopping and changing with every new piece of news that hits the headlines. Sooner or later the portfolio that is constantly tinkered with ends up a mess.

The recent Brexit vote is a great example. When the surprise news came, markets went into freefall.

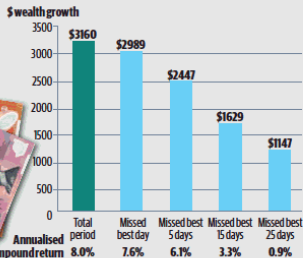
Britain's FTSE sharemarket fell 2 per cent in one trading session. Many investors were tempted to exit the market and head for safer waters. And yet, just weeks later the British market bounced back and reached an all-time high.

WHY YOU DON'T SELL JUST BECAUSE TRUMP HAS WON

WHAT A DOLLAR INVESTED IN 1970 WOULD BE WORTH TODAY



WHAT WOULD HAVE HAPPENED IF YOU HAD REACTED AND MISSED THE BEST INDIVIDUAL DAYS TRADES



Where does that leave those who bailed out?

Often the best advice is to let the news settle and leave your portfolio alone.

The problem with trying to avoid or escape turbulent events is it leaves you in worse shape than if you had just let the portfolio rest.

Sure, it is uncomfortable at times but there will always be some form of bad news and financial markets have a long history of rewarding the patient.

The diagram above shows how markets reward long-term investors, despite the near-constant stream of bad news.

Let's say each time there was a



MARKETS REWARD LONG-TERM INVESTORS, DESPITE THE NEAR CONSTANT STREAM OF BAD NEWS.

scary economic, political or market event you sought to jump out of the market. Chances are you'd feel good that you had taken action but the impact on your portfolio would likely be perilous.

If you missed the best five days, you lost out on nearly 2 per cent of your portfolio return. If you missed the best 25 days, you lost out on 7 per cent of potential portfolio return.

Keeping your portfolio healthy is just like keeping your body healthy. It requires planning, commitment and discipline.

There will always be bad news such as the Brexit vote to upset your balance but, instead of

reacting, let your portfolio rest.

You will be pleased you did.

Our timeless advice is to let your portfolio rest by following these guidelines:

- Diversify your assets across various countries, industries and companies.

- Base your portfolio on evidence rather than the latest fad;

- Stick to the strategy and resist the urge to change your portfolio based on your emotional reaction to the markets.

- Focus long-term. Check your portfolio six-monthly, not weekly.

Rakesh Shah is a private client adviser at Capital Partners.