GLOBAL & LOCAL

THE INVESTMENT EXPERTS

Is Now A Good Time To Invest?

Most headlines these days all talk about elevated market volatility, historic records of inflation, a declining global economy, and a potential global recession. For example, we have recently seen the British pound take a knock against the dollar due to changes in monetary and fiscal policy. No one can predict how the market will behave in the near future and, the uncertainty can make it even more difficult to invest right now. Is it advisable to invest right now or should you wait? This is determined by a number of factors.

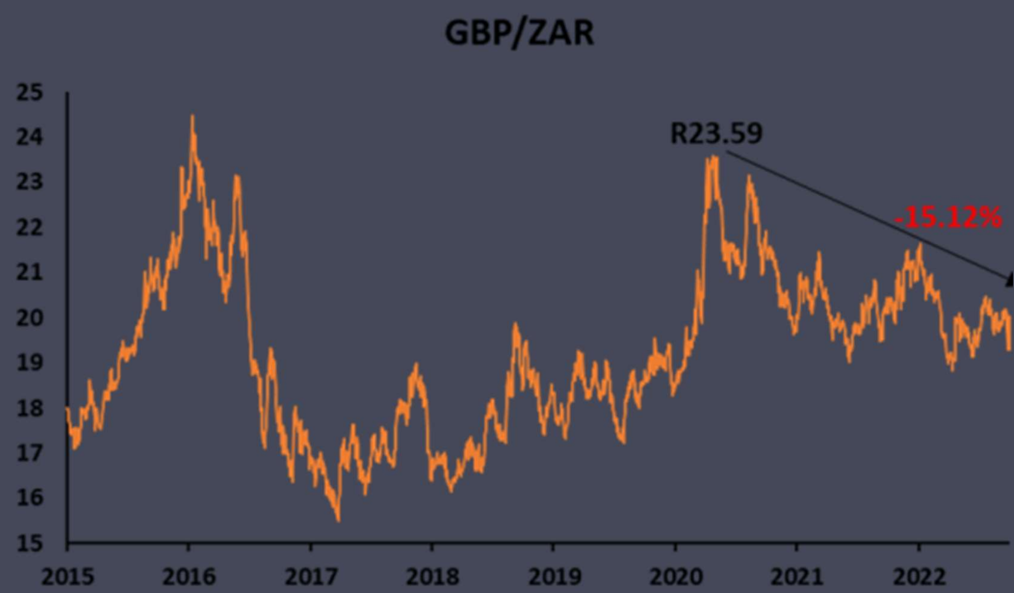
Regardless of the direction the market is taking, it is generally a smart idea to keep investing. Even while it may seem illogical to continue investing money when it immediately loses value during times of market volatility, doing so will result in higher gains over the long term thanks to the effects of compounding returns. Buying equity solely when the markets are doing well will result in you constantly paying more without regard for whether the stock is overvalued or not. This can build up over many years, and result in a much higher average price paid for the stock than if you had also made investments during market downturns.

If you still hold your investments, bear in mind that regardless of how much stock prices decline, you don't really lose money unless you realise the losses (i.e. sell the investment). In the near future, the value of your portfolio can decline, but hopefully, your investments will increase in value when the market eventually recovers. This would make sense to an investor who is looking to invest in the long term to allow the investment to go through all the phases of pain, recovery, and gain.

Take for example the pound right now, it recently took a tumble against the dollar, plunging more than 7% to a record low of $1.035, following the UK's massive fiscal stimulus proposed in the mini-budget. The prospect of the largest tax cut in 50 years scared off investors, as the cross fell below its 1985 low of $1.052 and recorded its lowest level since decimalisation back in 1971.

One would take that as an indication that they should hold off on investing in the currency, however, a good strategy would be to take advantage of its current weakness. Although there have been times in the past when it fell against the dollar, historically the pound has been worth more than the US dollar.

The UK permitted sterling to become a floating currency in August 1971, allowing its value to shift in response to happenings on the foreign exchange market rather than being fixed artificially. The market initially responded favourably, and by the end of the second quarter of 1972, the pound had risen to a record high versus the dollar, reaching $2.65.



As seen in the graph above, the pound has always regained its strength after declining. This further gives more reason to take advantage of one of buying into one of the world's strongest currencies.

Movements in the market are triggered by a lot of factors including changes in policies, political instability, world events and anything that ultimately affects the value of the underlying assets contained in your investment. Market fluctuations are inevitable although sometimes very volatile, in fact, they test the strength and ability of funds to bounce when faced with challenges because market volatility is short term, and any well-managed fund should be able to get back on its feet.

Although stock market declines can present wise buying opportunities, there are some circumstances where it could be prudent to postpone investing. For instance, you might want to prioritise creating an emergency fund before investing any more money. Without an emergency fund, you might be forced to use your investments to cover an unforeseen need. Downturns are, however, one of the worst times to sell your investments, even though they can be a fantastic moment to acquire. During a downturn, you might sell your equity for less since prices are lower, incurring a loss in the process.

Historic data, although not a guarantee of future returns may be used as a guide in determining whether a fund has a proven track record of weathering the bad times and bouncing back. At the end of the day, holding back from investing instead of taking advantage of the underperforming markets may lead to regret when markets eventually recover, in economics we call it opportunity cost.

Keep in mind that when you keep your money un-invested you are not really "saving" but allowing it to be eaten away by inflation. So, what you should be asking yourself is "what is the opportunity cost of holding back from investing when markets are volatile?".