

No Stress

by Matt Connor, Investment Analyst

I have recently returned from a holiday to Cape Verde, where the country's motto of "No Stress" suits the tropical island lifestyle. After returning to (a much colder) reality it has dawned on me that investors ought to take a leaf out of the Cape Verdean's book and try not to stress and act in haste when making investment decisions.

After a torrid 2022 for markets and an increasing likelihood of a recession coming this year¹, you would be forgiven for thinking "No Stress" is an oxymoron when applied to how investors should currently think – but heightened emotions often cloud judgement and can lead to irrational decision making.

Warren Buffet's famous quote that investors should be "fearful when others are greedy, and greedy when others are fearful" is touted so often that it has become somewhat of a platitude, yet it effortlessly describes the opportunistic mindset investors should have in turbulent markets. Data, however, proves that investors tend to do the opposite. UK retail investment funds suffered a year of outflows² as selloffs in financial markets pushed investors to withdraw their investments. As Buffet implies, at volatile times, opportunistic entry points are often available to investors to make further investments, even allowing an investor to lower their average cost on holdings that may have fallen in price.

So, why do investors tend to do the opposite of what they should do in a bear market? Fear! Fear that their investments could continue to drop in value if they don't sell now and fear that the markets will never recover. Bear markets will happen and that can be a scary thought, especially after a decade long bull run where it seemed like financial markets did nothing but go up. History tells us that bear markets have historically been shorter-lived than bull markets and ultimately, markets have always recovered from even the steepest of selloffs, meaning that a bear market provides an opportune time to invest³.

Well-diversified, multi-asset funds such as Momentum's own fund range can also help reduce the impact a bear market has on an investor's portfolio due to the inclusion of defensive assets that can be uncorrelated to equity markets.

For example, within our UK Equity portfolio at Momentum, we have taken advantage of the volatile market conditions to add high-quality holdings to our roster of stocks, such as Games Workshop, Cranswick, and Next15 Communications. We have fully embraced the Cape Verdean "No Stress" mindset in staying calm and logical when analysing new opportunities which we believe will pay off handsomely.

Hopefully after reading this article, you remind yourself of the "No Stress" motto when you see a panic-inducing headline about further pain in the stock market and realise it could be a good opportunity for a long-term investor. At the very least, it may prompt you to book a holiday so you can forget about your worries. I'm sure my suggestion of a company-sponsored trip to Cape Verde to fully immerse myself in the "No Stress" mindset is 100% less likely to happen in the future than a market rebound.

Sources

1 Financial Times: 'US Stocks sink after disappointing retail sales data'

2 Financial Times: 'UK funds set for first year of net outflows in over a decade'

3 <https://www.fidelity.com/viewpoints/market-and-economic-insights/bear-markets-the-business-cycle-explained>



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For more information, please contact your adviser or alternatively contact:

Belvest Investment Services Limited
研富投資服務有限公司
9th Floor, Centre Mark II
305-313 Queen's Road Central
Sheung Wan, Hong Kong

Tel +852 2827 1199
Fax +852 2827 0270
belvest@bis.hk
www.bis.hk

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