Insights, Tacit Thought | Weekly Investment Insights

Flexibility and investing are not natural bedfellows.

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In the modern world, flexibility is prized above almost everything else. The pace of change we now live through feels relentless, and the instinct is to assume that our finances should keep pace, nimble, reactive, always within reach.

Yet in a week where many of our investments rose by more than 4% in a single trading day, it is worth pausing to ask: is that kind of responsiveness actually good for us? The evidence suggests not. Flexibility, when it comes to investing, has consistently been shown to erode returns rather than enhance them.

Modern investment applications promise empowerment through instant access: trade anytime, anywhere, react to headlines in seconds, withdraw cash from your ISA and replenish it before the tax year is out with no apparent cost or sanction. It feels frictionless. It feels like control. But for long-term investors, this accessibility often proves quietly detrimental. Lower barriers, zero commission trades, fractional shares, real-time alerts all encourage impulsive decisions at the expense of sound longer-term strategy.

The uncomfortable truth is that human beings are inherently impulsive animals, and financial markets are very good at exploiting that. A notification about an inflation spike or an unexpected government announcement creates anxiety and triggers selling, while the fear of missing out pulls investors back in at exactly the wrong moment. This so-called democratised flexibility simply amplifies behavioural errors. Overtrading racks up hidden costs through bid-offer spreads, despite the absence of visible commissions, eroding returns by as much as 1-2% annually according to recent studies. Nothing, it turns out, is truly free.

Fidelity International’s research, published in 2022, illustrated this point with striking clarity. When analysing client accounts, they found that the best performers were not the most active traders, they were the “dead” or “forgetful” investors who had simply left their portfolios untouched. Active traders, exercising their flexibility to react to news and volatility, consistently underperformed due to mistimed buys and sells. The flexibility they enjoyed became the very thing that held them back.

The cost of market timing is perhaps even more sobering. Over the twenty years to 2022, missing just the ten best days in the UK equity market cut annual returns almost in half, from 9.5% down to 4.7%. Those ten days are rarely telegraphed in advance. They tend to arrive sharply and without warning, often during periods of maximum anxiety, when the temptation to sit on the sidelines feels most justified. UK investors who exited during downturns, lured by the comfort of flexibility, forfeited the very rebounds that make long-term compounding work. Across cycles that have included post-Brexit volatility, a global pandemic, and sustained inflation pressures, simply staying invested has consistently preserved wealth better than reactive positioning.

At Tacit Investment Management, we prioritise resilience over flexibility. Helping our clients capture market upside requires unwavering discipline, but that discipline, when combined with a clear and well-constructed financial plan, actually gives clients the flexibility they need in their lives without sacrificing the inflation-adjusted returns they need over time. The goal is not rigidity for its own sake. It is about ensuring that flexibility is exercised in the right places, and that portfolios are never at the mercy of short-term noise. It bears repeating. Missing just the ten best trading days over a twenty-year period led to a 50% reduction in returns. Discipline is not the enemy of opportunity. It is what makes opportunity possible.

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