

Ten Years on

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A lot is being written this month about the tenth anniversary of the financial crisis. In August 2007 the UK stock market started a period of volatility. Banks began to stop lending to each other due to market fears over exposure to potential losses on high-risk US mortgages. The credit crunch began in earnest.

We will not replay the events to you (if you wish to, clicking [here](#) will take you to a good article published in City AM this week) but our thoughts are very much focussed on the impact of the crisis on investment portfolios over the past ten years. Investing to us is about managing for the longer term and not being swayed by short term events. Your long term objective, once established, must be kept front and centre at all times.

Much has been written about the 'crisis' and how it was different to many other events in history. Economically this is correct, however, the price of financial assets have behaved as they had previously done following any negative economic event: equities initially fell and government bonds rose. Equities eventually recovered and UK investors that remained invested will have achieved their objective both in absolute and real terms. Quite astounding if considered in the context of the number of banks that formed part of the UK equity market at the time.

In fact, the best thing to have done during the depths in 2008 would have been nothing following the initial run on Northern Rock. During that period many investors decided to encash their investments as the experience was psychologically damaging for them. Investor behaviour during times of stress is often irrational when considered in hindsight but actually appears very rational at that point in time.

In practice, had you not been invested in 2007-8, you should have invested after the falls. Had you been invested, you should have stayed invested. The worst thing investors did was sell investments and crystalise losses. The table below shows the performance over the past ten years of various UK assets alongside a hypothetical investor who sold out of their portfolio after the market fall in 2008 and then reinvested three years later (to 'reduce' their risk).

	Return
UK Equities	70.02%
UK Government Bonds	83.64%
UK IPD Property	46.84%
Cash	4.51%
Average Balanced UK Fund	68.68%
Hypothetical Investor	48.08%

Source: Morningstar Workstation, 10yrs to 31st July 2017, net income reinvested, in Sterling

The investor that lost out most over the past ten years is the one that did not invest at all. Their return was barely positive in nominal terms and negative when inflation is considered. Our takeaway from this is that 'crises', although very testing at the time, do not change the relationship between asset prices that has stood for hundreds of years. Investors need to remember their longer term objective at all times and allow their investment manager to make short term decisions rather than make a wholesale change to their planning.

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