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The Importance of Investment Composure

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Every market downturn is different but its impact on our behaviour is consistent. Investment composure is one way in which an investor's behaviour can be measured and forms part of our risk profiling exercise when any prospective client engages with Tacit.

Market ups and downs are a normal part of investing. It's natural to feel uneasy when you see your investments drop in value, but history shows that markets tend to recover over time. Investors who remain calm and avoid making hasty decisions and stay the course during these periods are more likely to reach their long-term financial goals.

When markets are volatile, reacting emotionally, like selling investments in a panic, can lock in losses and cause you to miss out on potential rebounds. Most of the market's strongest gains happen in just a few days each year and missing these can significantly impact your returns. By staying invested, you give your investments the best chance to grow and benefit from compounding returns over time.

Having a clear investment process or plan is like having a roadmap for your financial journey. This plan is based on your goals, your comfort with risk, your investment time horizon as well as whether you are taking an income from your investments or not. Sticking to a tried and tested process, especially during turbulent times, helps you avoid costly mistakes that come from making decisions based on fear or attention-grabbing headlines.

It is no coincidence that a lot of the Tacit team's time this month has been spent talking to clients, and especially those who exhibit signs of low investment composure.

To us, market volatility is normal: ups and downs are part of investing, and generally unexpected, however the psychological impact of these falls has become more pronounced as news flow has increased and access to investment information has become easier to access through handheld digital devices and 24-hour news channels.

Sensationalist headlines that focus on overnight price movements which can be reversed the next day adds to the noise an investor must traverse in the modern world and increases investor anxiety. This is the price an investor in liquid public markets must endure, and emotional decisions can be costly. Reacting to short-term market moves often leads to poor outcomes.

Staying calm and sticking to your plan is usually the best course. By maintaining composure and following a well-thought-out investment process, you give yourself the best chance of achieving your financial goals, regardless of what the markets are doing in the short term.

Our job at Tacit is twofold during periods such as this. First to consider the implications of the changing investment landscape on our investment strategies (which have now been running successfully for nearly 15 years), but second, and equally important, to ensure that the investment strategy our clients are mapped to do not leave them in a position of being a forced seller during periods such as this.

performance is not a guide to future results, and the value of investments can go down as well as up.