

Ukraine & Your Retirement

A lot has unfolded across the Russia-Ukraine border in the last few days. While much of the information reaching us is no doubt clouded by the fog of war, it's saddening that so much suffering is being experienced. While the note below touches on the possible financial ramifications of such an event, let us not be blinded to the terrible loss and destruction felt by many who are on the ground.

Modern-day politics means that almost any event affects global markets. It is natural to be fearful during such an uncertain time. Fear is a natural, human emotion. However, acting on this fear is entirely optional, an option that usually results in disastrous financial outcomes. Many investors never recover from these outcomes.

As the caring steward of your family's financial future, it is my job to tell you how I see it with radical candour.

The unfolding situation in Ukraine is deeply worrying, like countless other events in our history. However, mixing global events with investment policy is a dangerous pursuit.

As an experienced investor, I plan to make zero changes to my family's investment portfolio. I urge you to proceed in the same manner. If you have a well-constructed long-term plan, no reaction is needed. Even if you are sure that current events will negatively impact the world economy, it is not obvious how markets will react. In the long term the economy and the market move in unison. In the short term, there is no correlation. The Covid pandemic proved this again beyond doubt.

Successful investing is about avoiding mistakes and being calm through all market cycles. This advice is incredibly simple but unfortunately incredibly hard for most people to follow.

During uncertain times like these, many investors look to their investment advisers for ideas on how to change their long-term portfolios in response to the current crisis. I urge you to stick to the long-term plan. If you are investing new money every month, you'll be buying units on sale if the market is temporarily down.

The secret to successful investing is to set up your portfolio correctly on day one, and then never tinker with it unless your goals or plan change. Trying to time market movements leads to investing failure. Unfortunately, unscrupulous investment advisers love tinkering with people's retirement portfolios as it conveys the appearance of knowledge. It gives them a reason for being, no matter how destructive the advice may be.

During market extremes, focus on what you can control (your behaviour) and not on factors you cannot influence (short term stock market movements).

Why am I so confident that my investments will survive this crisis? When you invest in a global equity portfolio you own a collection of companies that we use every single day. Real companies, full of real people operating in their area of expertise, making adjustments as they see fit. My bet is that these companies will capture their fair share of profits and innovation in the decades to come. If you have an investment time frame of 30 years, making investment decisions based on the last 30 minutes or 30 days of news is a recipe for disaster.

I understand that the temptation during a time like this is to move your money into a "safe" asset like cash. However, this decision forces you to make two correct timing decisions. The first is when to come out of the market, the second is when to get back in. Thinking that you can consistently get these two decisions right ignores everything we have learnt from history. Please avoid the temptation to try this. The admission price to long term wealth through stock marketing investing is possessing the courage to do nothing when your natural instincts are telling you to run.

No one knows where the market is heading, no one. A few people will make predictions that may turn out to be correct but it's impossible to know with foresight who they are and whether it was luck or judgment.

There will be many more market declines over the course of your lifetime. These will be temporary declines. Behave correctly and the permanent returns are yours. The stock market has proven that it advances after all shocking world events. I'm not changing my family's long term investment portfolio, and neither should you.

"A permanent loss in a well-diversified equity portfolio is a human achievement of which the market itself remains incapable" ...Nick Murray

Andy Hart, Humans Under Management Ltd