Ukraine-Russia Conflict: Don’t Let Russia Invade Your Investment Portfolio

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Ukraine-Russia Conflict

“In war, whichever side may call itself the victor, there are no winners, but all are losers”

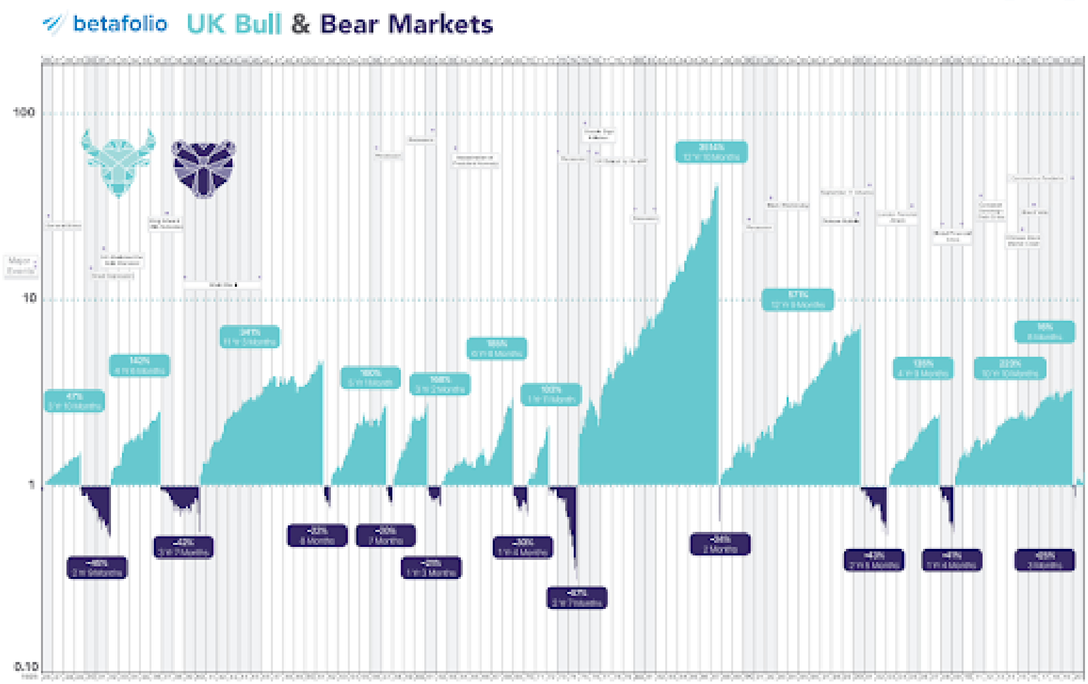
Reports have emerged over the weekend that Russia will invade Ukraine as soon as Wednesday 16 February. These reports have, without a doubt, caused the world to go into panic mode and stirred a new sense of turbulence in the financial markets. The question on everyone’s mind is what do we stand to do to protect our financial position? The short answer… DO NOTHING! – but let’s elaborate and back that up.

When it comes to the latest Ukraine-Russia tensions, only Vladimir Putin can predict the Kremlin’s next move with a degree of certainty. In fact, the world is still scrambling to uncover Putin’s motives for this colossal military build-up. While the western world is cycling through every combination of threats to deter the Russians from attacking, it seems like their ability to affect the Kremlin’s immediate actions are limited.

There is no doubt that a Russian invasion of Ukraine will spook global financial markets and oil prices. This is evident in how the global stock markets tumbled deep into the red on Monday as oil prices rocketed amid concerns about a possible Russian invasion.

This is not the first time Russia is stirring panic in the markets. In 2014, Russia’s invasion and annexation of Ukraine’s Crimea sent shockwaves through global markets, but as always, with geopolitical flare-ups, the volatility was quickly subdued. That's not to suggest that the threat of 2014 was in any way similar to what we are currently seeing, with over 130,000 Russian troops staged just outside the border of Ukraine. However, the reality is that the accompanying market turbulence in the capital markets is nothing new.

The following chart visually illustrates the past ten decades of bull and bear markets, a time filled with wars, financial crises, terrorist attacks and a global health pandemic, all of which caused significant market disruptions that led to economic bear markets. It is impossible to predict the next bear market or its severity with precision. Still, one can be confident that after every bear market, there will be a bull market where the capital markets around the world will resume their permanent advance.



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With the above said, it is no wonder why investors go into panic every time they hear fear-filled words like “market-crash”, “sell-off”, and “stocks tumbling”. I, too, would be much more comfortable if the media would instead start using words like a “temporary market decline” or a “marginal decrease in asset prices”. However, irrespective of the fear and negative sentiment prevailing in the public markets, this is not a good time to change your investment strategy.

Fleeing the market in times of a downturn could result in you missing out on some significant gains when the markets recover. This can have a considerable impact on your long-term performance.

An analysis by JP Morgan concluded that if you were not invested in the market for just 10 of the 7,301 days between 4 January 1999 and 31 December 2018, your annualised return went from 5.62% per year to 2.01% per year. To sketch an even more frightening scenario, if you missed the best 60 days of market performance, you would have realised a negative return of 7.4% on your investment.

What is even more eye-opening to JP Morgan’s study is that six of the best performing days in the market occurred within two weeks of the worst days. Therefore, we strongly emphasise not to try and time the market.

Given the above evidence, our advice would always be to have confidence in our investment philosophy. Trust the markets, resist a sell-off, diversify your risks and focus on the long-term. Or in more simple terms… **DO NOTHING!**

Reference:
https://am.jpmorgan.com/us/en/asset-management/institutional/insights/market-insights/market-updates/on-the-minds-of-investors/impact-of-being-out-of-the-market/

Important Regulatory Information

Past performance is no guarantee of future return. The value of investments and the income from them can go down as well as up. You may get back less than you invest. Transaction costs, taxes and inflation reduce investment returns.

For Financial Advisers only.

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