Investing in uncertain times

Stay calm and invest for the long term

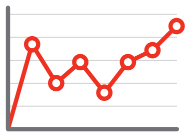
HSBC Global Asset Management

Investing in uncertain times

Stay calm and stay invested

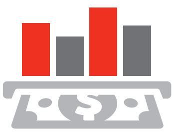
Don’t give up your long-term plan irrationally

With so much negative news out there, should I hold on to my investment?



When there is bad news, the market tends to overreact for a while. It is impossible to predict market ups and downs accurately, so it is difficult to time when is best to sell and buy in the short term. Historically, financial markets have risen over the longer term, despite these short-term ups and downs. To avoid getting caught out, it is better to stay calm and wait for the panic to be over before making any decisions.

When the world is full of uncertainties, isn’t it better to hold cash instead?



People who focus on the short term and follow the crowd can easily buy at the highest prices and sell when they are low, because negative news headlines affect short-term market movements and may lead to panic selling. Smart investors who remain calm when others are fearful will be able to avoid losses or keep them to a minimum. If you only hold cash over the long term, you may lose purchasing power from inflation. Investing in a mix of cash, bonds and shares can help you maintain your savings in the long run.

Why should I invest over the longer term?

Investing for a longer period allows you to ride out the short-term ups and downs and benefit instead from the fact that, historically, market prices have always had an upwards trend over long timeframes. You can consider adding to your investments on a regular basis, which will help smooth the effects of market ups and downs, because it will mean that, even if you buy some shares or bonds when prices are higher, you will buy others when prices are down, so in the long run it will even out.

Do I face more risk if I keep my investments for a longer timeframe?

Over the long term, share prices are a pretty fair evaluation of companies’ worth and profitability, and bond prices are a pretty fair evaluation of a state or a company’s ability to pay back its loans. So **while markets do go up and down, it is the investors’ ability to withstand these short-term movements that brings potential positive returns over a longer time frame.**

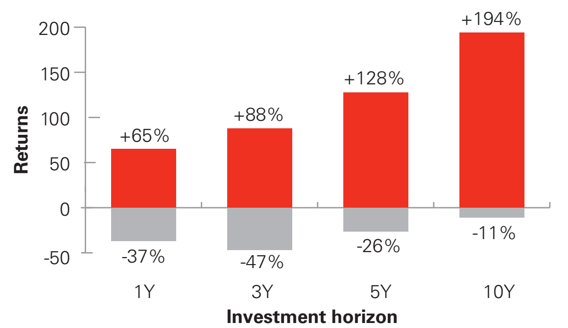
The longer the timeframe, the better the potential returns

This chart shows the performance of the world equity market over different timeframes.

If you look at the “1Y” bar, it shows that during the period from 1999 to 2015, the return of an investment with a one-year horizon ranged from a low of -37% to a high of 65%. However, if the investment horizon is extended to ten years, the return ranged between -11% and 194%.

Therefore, the longer you stay invested, the more likely you will enjoy positive returns. **Please note that while historical data suggest positive returns, this does not guarantee future performance.**

Performance of MSCI AC World Daily Total Return Index*



*Source: Bloomberg. The world equity market is represented by the MSCI AC World Daily Total Return Index. Data are for the period from 1 January 1999 to 31 December 2015, calculated by rolling returns in USD within 1-year, 3-year, 5-year and 10-year timeframes.

Issued by HSBC Global Asset Management (Hong Kong) Limited

Look out for other articles from Investing in Uncertain Times soon...