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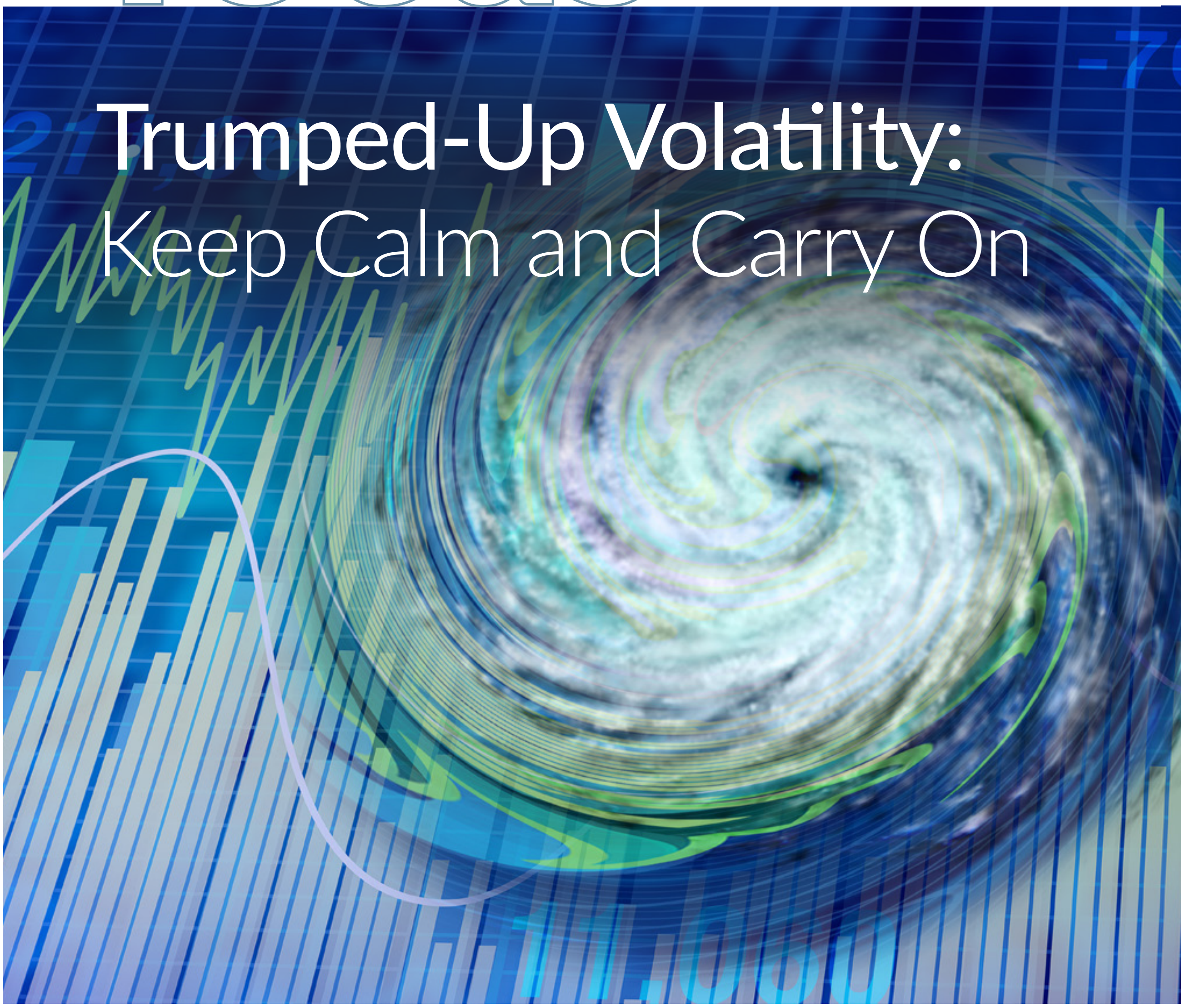
focus

Trumped-Up Volatility: Keep Calm and Carry On



Markets have been extremely volatile over the past two months. For most, watching the value of your investments swing wildly is disconcerting. In times like these, it can be tempting to batten down the hatches and retreat from the market. Our advice: act only after calm and careful consideration. History highlights that emotional, reactive decisions during periods of volatility are often detrimental to your long-term wealth.

FORSYTH BARR

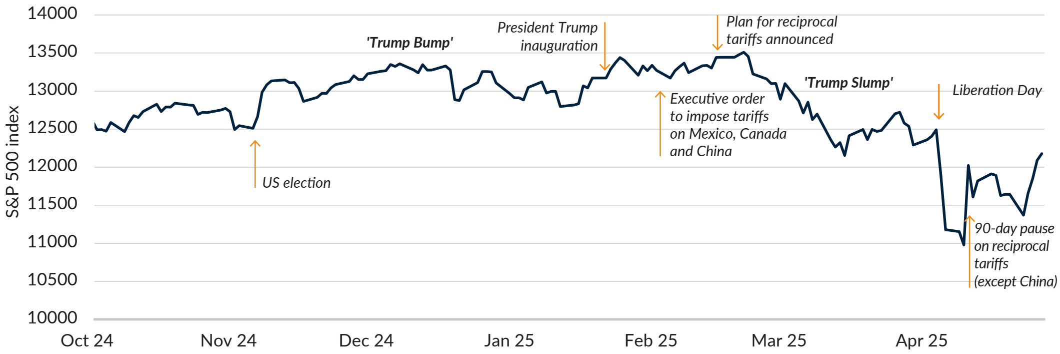
...To say markets have been volatile of late is an understatement...

Making volatility great again

To say markets have been volatile of late is an understatement. Since President Trump kicked off his tariff campaign on 1 February equity markets have swung sharply in response to a flurry of new tariff announcements, postponements, and reversals.

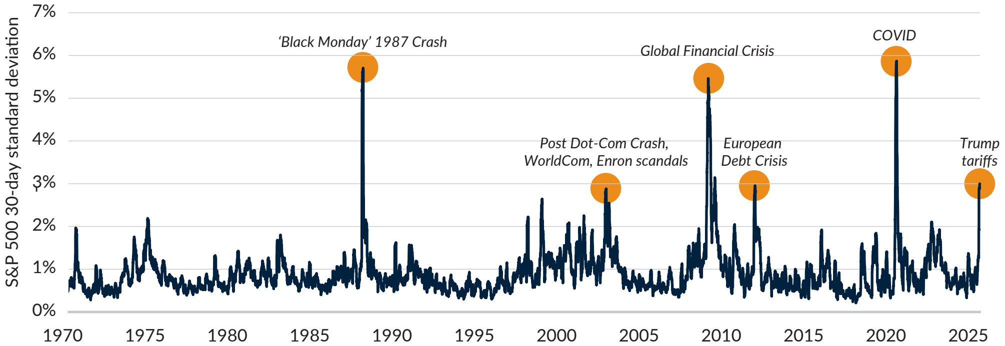
Today, the US S&P 500 index sits around -10% below its early February peak, but up +11% from its closing low on 8 April, with gains partly offset for New Zealand investors by a stronger NZ dollar vs. the USD. (Warning: given the pace of policy changes, the picture may well have shifted again by the time you read this!)

MARKETS BOUNCING AROUND ON TARIFF UNCERTAINTIES



Source: LSEG Data & Analytics, Forsyth Barr analysis

US MARKET VOLATILITY OVER THE PAST TWO MONTHS HAS ONLY BEEN EXCEEDED DURING THE 1987 BLACK MONDAY CRASH, THE GLOBAL FINANCIAL CRISIS, AND THE COVID PANDEMIC



Source: LSEG Data & Analytics, Forsyth Barr analysis

Nobody enjoys watching the value of their assets jump around. Those who have experienced turbulent periods before are typically calmer and understand that bouts of volatility are a normal part of investing—the price you pay for earning higher returns over the long-term versus putting your money in more stable investments like the bank.

For others, especially newer investors, watching assets decline in price can be unsettling. Fortunately, markets have picked up in recent weeks. Unfortunately, we can't tell you whether the run of heightened volatility will persist or subside from here. The longer it persists the greater the risk that investors react in ways that hurt them long term.

Our emotions are our enemy during volatile periods

Volatility preys on our emotions. Humans are hardwired to be loss averse meaning we feel the pain of losses more acutely than the pleasure of gains. During periods of heightened volatility, this bias intensifies: bad news dominates headlines, markets fall, and investors' confidence weakens. This emotional strain increases the risk of exiting investments at an inopportune time.

While avoiding the market's bad days would be ideal, missing the good days can be extremely costly. Unfortunately, the challenge for investors is that often the best days follow the bad. Investors who sell during tough periods may not only crystallise losses but also risk compounding the pain by missing gains on the other side.

The table below highlights the twenty strongest days for the US market since 1965—every one followed a difficult period in the market.

STRONGEST 20 DAYS SINCE 1965: GOOD DAYS TYPICALLY FOLLOW BAD PERIODS

Date	Return	Prior 90-day returns	Reason
13 Oct 2008	11.6%	-26.8%	Global Financial Crisis
28 Oct 2008	10.8%	-32.8%	Global Financial Crisis
9 Apr 2025	9.5%	-15.8%	Trump tariffs
24 Mar 2020	9.4%	-30.6%	COVID
13 Mar 2020	9.3%	-21.7%	COVID
21 Oct 1987	9.1%	-23.2%	Black Monday/1987 Crash
23 Mar 2009	7.1%	-11.8%	Global Financial Crisis
6 Apr 2020	7.0%	-23.3%	COVID
13 Nov 2008	6.9%	-34.1%	Global Financial Crisis
24 Nov 2008	6.5%	-36.8%	Global Financial Crisis
10 Mar 2009	6.4%	-23.9%	Global Financial Crisis
21 Nov 2008	6.3%	-41.8%	Global Financial Crisis
26 Mar 2020	6.2%	-23.6%	COVID
17 Mar 2020	6.0%	-25.3%	COVID
24 Jul 2002	5.7%	-27.0%	Dot-Com Crash
10 Nov 2022	5.5%	-10.9%	2022 bear market (inflation/interest rate spike, Ukraine war)
30 Sep 2008	5.4%	-13.9%	Global Financial Crisis
29 Jul 2002	5.4%	-20.0%	Dot-Com Crash
20 Oct 1987	5.3%	-27.1%	Black Monday/1987 Crash
16 Dec 2008	5.1%	-28.4%	Global Financial Crisis
Average	**7.2%**	**-24.9%**	

Source: LSEG Data & Analytics, Forsyth Barr analysis

To emphasise just how costly missing those good days can be, if you invested $10,000 in the S&P 500 Index on 1 January 1980 it'd be worth around $505,000 today. Over that period there have been around 11,500 trading days. If you missed just the 10 highest returning days (less than 0.1% of trading days) you'd have well under half that, around $220,000. If you missed the top 20 days you'd have less than a quarter, about $126,000. Timing markets successfully is (at best) extremely difficult—and getting it wrong by even a little bit can hurt a lot.

...The worst mistake is to abandon a sound, long-term investment strategy because of short-term market movement...

RETURNS SINCE 1980 FROM $10,000 INVESTED IN THE S&P 500

1 January 1980 to today	Dollar value today	Average annual return
Fully Invested	$505,549	12.89%
Missed 10 best days	$220,037	10.02%
Missed 20 best days	$126,025	8.15%
Missed 30 best days	$78,132	6.56%
Missed 40 best days	$50,694	5.14%
Missed 50 best days	$34,015	3.86%
Missed 60 best days	$23,257	2.64%

Source: Bloomberg, LSEG Data & Analytics, Forsyth Barr analysis

What should investors do?

The worst mistake is to abandon a sound, long-term investment strategy because of short-term market movements.

Don't panic—stick to your plan. That's what it's designed for, to keep emotions at bay and guide you through choppy periods toward achieving your long-term goals.

Sticking to your plan doesn't mean sitting on your hands and ignoring your portfolio. For those investors with excess funds it's worthwhile considering starting to invest in more favourably priced assets. The silver lining of lower asset prices is that they'll deliver better returns over the long run.

That said, not everyone is comfortable taking more risk in turbulent times—avoiding sleepless nights is valuable. Taking advantage of the recent tick up in share prices to realise some cash might be appropriate for some. It will likely mean lower long-term returns, but it's worthwhile if it makes you more comfortable with your portfolio.

There's no one-size-fits-all answer. Your response should reflect your individual circumstances. If you would like to discuss the current environment, review your investment strategy, or explore opportunities don't hesitate to contact your Investment Adviser. In times like these, a level-headed, objective sounding board can really be beneficial.

If at any time you want to discuss investment options and opportunities, your Forsyth Barr Investment Adviser is available to provide you advice and assistance.

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