Different investment strategies following stock market declines

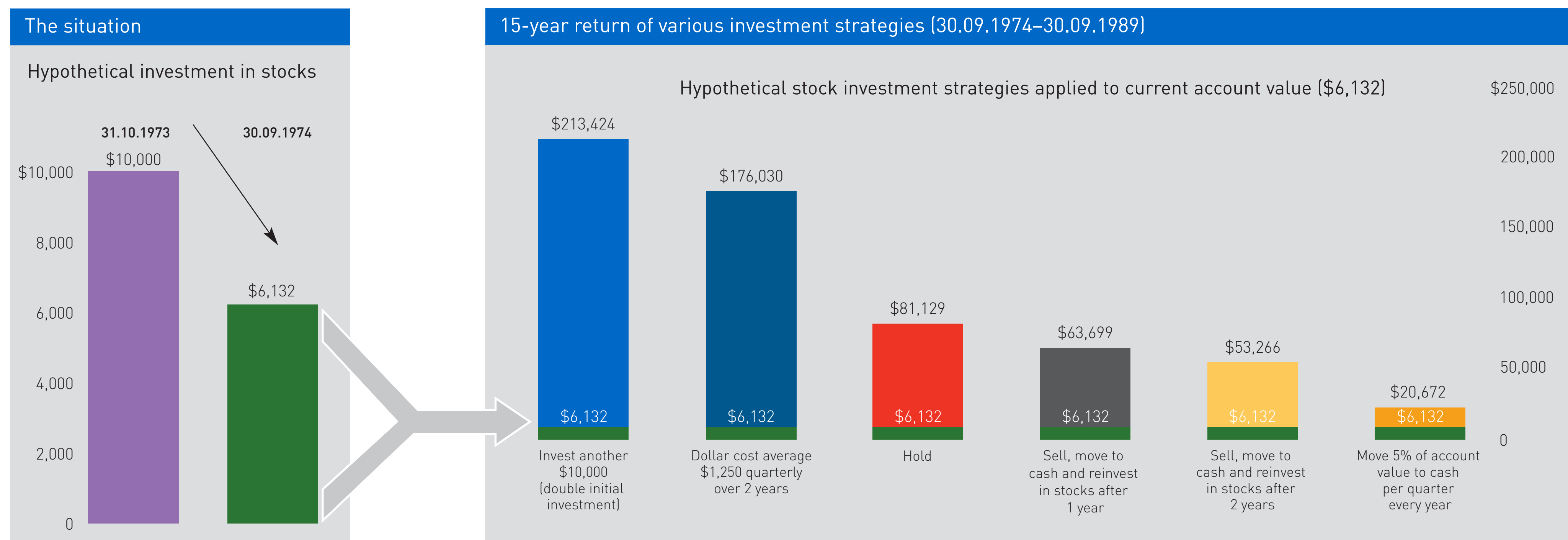
Global Equity Markets

BLACKROCK

During 2008, the MSCI World Index fell by 40%. This is not the first time that the stock market has declined substantially over a relatively short period. It is challenging for investors to know what investment approach to take in this situation: should they stay invested, add more money to the portfolio or switch into cash for a while?

As a hypothetical example, we have shown a $10,000 initial investment before the stock market decline of 39% in 1973/4 and demonstrated how different investment strategies would have fared in the subsequent 15 years. These 15 years were characterised by both rising markets as well as two periods in 1990 and 2000/2 when the market declined by 24% and 46% respectively.

Our calculations show that moving to an all-cash portfolio for two years might seem like the best idea but would not have been the best course of action for a long-term, growth-oriented investor. Doubling the initial investment achieved the highest gains, but may feel extremely risky during an uncertain market. A more attractive option may be dollar-cost averaging, which involves investing a fixed amount of money at regular intervals. This can help to reduce exposure to short-term market volatility by spreading an investment over time and, in this case, resulted in a final portfolio worth $176,030.



Sources: BlackRock; Datastream. Stocks are represented by the MSCI World Index. Cash is assumed to return 2% annually. It is not possible to directly invest in an index. The data assumes reinvestment of all income and does not account for taxes or transactions costs.

See important information overleaf.

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