omnis INVESTMENTS

Charting an eventful year for investing

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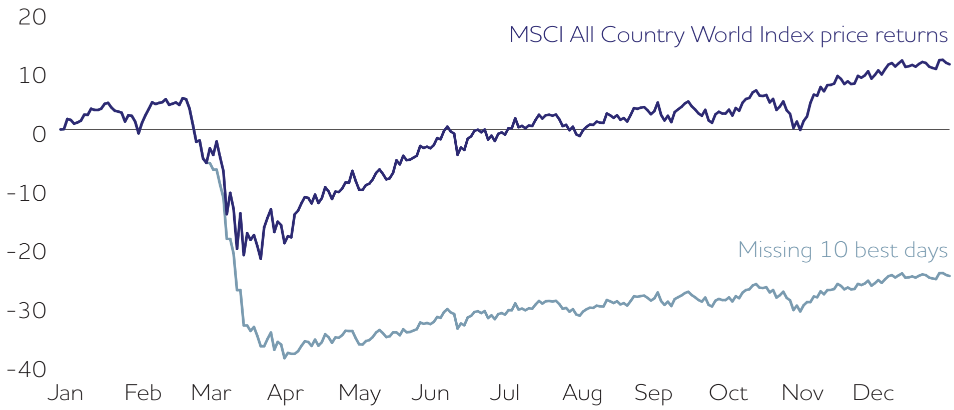
Financial markets gave investors a rollercoaster ride in 2020, with a sharp dip at the start of the health crisis followed by a swift recovery. The experience reminds us of four important investment principles.

Investment update — 7 January 2021

1. Stay invested

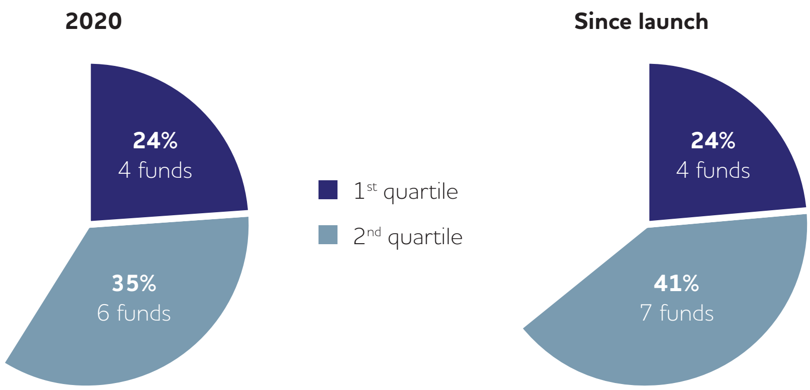
When the going gets tough, it can be difficult to hold your nerve. Yet financial markets often enjoy their strongest days soon after they've suffered their weakest. That's why it's important to resist the impulse to sell your investments after they've fallen in value because you'll miss out when they recover. Even seasoned investors acknowledge that it's impossible to time the markets over short periods. To prove the point, this chart shows how the MSCI World Index gained 11% over 2020 but lost 25% if you'd missed the 10 best trading days.



Source: Bloomberg (as at 31/12/2020)

2. Invest actively

The past year has demonstrated the benefits of investing actively. This approach allows skilled investors to capture the opportunities and navigate the risks when the environment is changing rapidly. We use a tried and tested process for identifying fund managers that have an investment edge in their particular area of expertise. We then monitor and assess them over long time periods and avoid reacting to any short-term periods of underperformance. The result is that around two-thirds of the funds we've selected for portfolios have been in the top half of performance versus their peer groups since launch and 60% delivered returns that were in the top half over 2020.



Source: FE fundinfo (as at 31/12/2020)

3. Diversify your portfolio

This table shows annual asset class returns from highest to lowest (%).

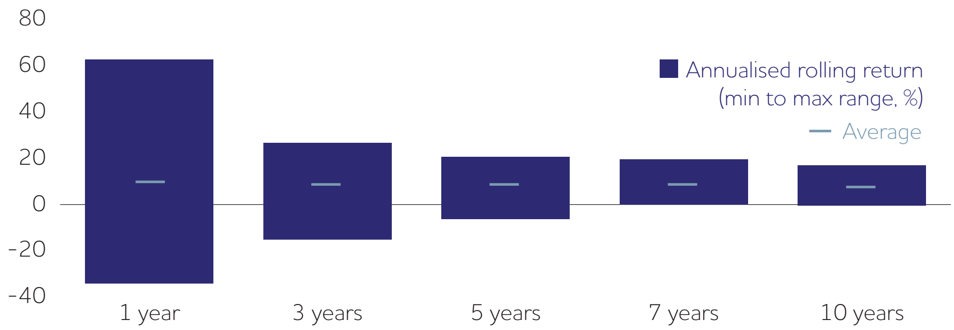
The Covid-19 crisis reminds us that the unexpected happens frequently, and it's difficult at the start of any year to know how markets will perform, as the table below shows. That's why a diversified strategy blending different asset classes can dampen losses when the environment is challenging and provide exposure to a wide set of opportunities. This approach removes the risk of switching in and out of asset classes and smooths returns. Our multi-asset portfolios offer diversification from several sources, including geography, investment style and asset class.

2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
US small cap 15.8	US equities 25.7	Global bonds 5.1	EM equities 25.4	US small cap 44.1	Japanese equities 18.2	US equities 20.0	US small cap 35.7	High yield bonds 37.1	Gilts 15.6	US small cap 30.4
EM equities 14.7	European equities 20.5	US equities 1.0	UK small cap 18.2	EM bonds 33.3	UK small cap 9.2	Gilts 13.9	UK small cap 32.8	UK small cap 27.8	Global bonds 6.8	EM equities 22.6
US equities 14.1	US small cap 20.2	Cash 0.7	European equities 17.5	US equities 32.7	US equities 6.6	Corporate bonds 12.6	US equities 29.1	European equities 17.8	Corporate bonds 5.9	High yield bonds 21.2
Corporate bonds 9.3	UK equities 19.2	Gilts 0.6	Japanese equities 15.6	EM equities 32.6	High yield bonds 5.4	US small cap 11.0	European equities 25.2	Corporate bonds 15.8	US equities 2.2	UK small cap 19.5
Japanese equities 9.1	UK small cap 18.8	EM bonds -0.1	UK equities 13.1	Japanese equities 23.4	European equities 5.4	Global bonds 7.6	Japanese equities 25.0	EM equities 13.0	Cash 0.9	EM bonds 19.1
European equities 8.6	Balanced Portfolio 15.5	High yield bonds -1.7	Balanced Portfolio 11.1	Global bonds 21.9	Global bonds 2.9	Balanced Portfolio 7.1	UK equities 20.8	UK equities 12.3	EM bonds -1.2	Japanese equities 18.0
Gilts 8.3	Japanese equities 14.9	Corporate bonds -2.3	US equities 10.6	Balanced Portfolio 20.1	Balanced Portfolio 2.0	High yield bonds 5.7	Balanced Portfolio 13.1	US small cap 10.8	Balanced Portfolio -1.7	US equities 18.0
UK small cap 7.2	EM equities 13.9	Balanced Portfolio -4.8	High yield bonds 7.9	European equities 19.7	UK equities 1.0	EM equities 3.9	High yield bonds 11.8	US equities 10.2	High yield bonds -3.0	UK equities 14.5
Global bonds 5.6	High yield bonds 13.4	US small cap -5.9	EM bonds 5.3	UK equities 16.8	US small cap 0.7	Japanese equities 2.4	Corporate bonds 1.8	Balanced portfolio 10.0	UK equities -3.5	Balanced Portfolio 14.3
Balanced Portfolio 4.9	Corporate bonds 11.4	Japanese equities -8.6	Corporate bonds 5.2	UK small cap 14.3	Gilts 0.6	EM bonds 1.3	Cash 0.5	EM bonds 9.9	US small cap -3.8	Global bonds 8.9
High yield bonds 4.6	EM bonds 9.4	EM equities -9.3	US small cap 4.3	Corporate bonds 11.9	Cash 0.6	UK equities 1.2	Gilts -3.9	Japanese equities 2.8	Japanese equities -11.9	Corporate bonds 8.8
Cash 0.3	Gilts 6.9	European equities -9.5	Gilts 1.8	High yield bonds 10.5	Corporate bonds 0.5	UK small cap 0.9	EM equities -4.4	Gilts 2.7	UK small cap -12.5	Gilts 7.2
EM bonds -1.8	Global bonds 2.7	UK equities -9.5	Cash 0.4	Gilts 10.1	EM equities -10.0	Cash 0.5	Global bonds -4.5	Cash 0.8	European equities -14.7	European equities 5.8
UK equities -9.8	Cash 0.8	UK small cap -9.5	Global bonds -2.3	Cash 0.5	EM bonds -12.2	European equities 0.2	EM bonds -10.2	Global bonds -0.3	EM equities -17.8	Cash 0.7

Source: Bloomberg (as at 31/12/2020)

4. Think long term

If 2020 demonstrated that patience rewards investors, then the benefits of staying invested over the long term are even stronger because it tends to reduce the impact of temporary periods of market volatility. For example, the FTSE All Share fell by 9.8% in 2020 but over the past 10 years has returned 71.9%. The chart below shows how the potential returns from this index become less volatile the longer you remain invested.



Source: Bloomberg (as at 31/12/2020)

Find out more

We hope that exploring these four investment principles helps you to understand how we manage portfolios. If you'd like to find out more about our approach to investing or have any other questions about your portfolio then please contact your financial adviser.

www.omnisinvestments.com