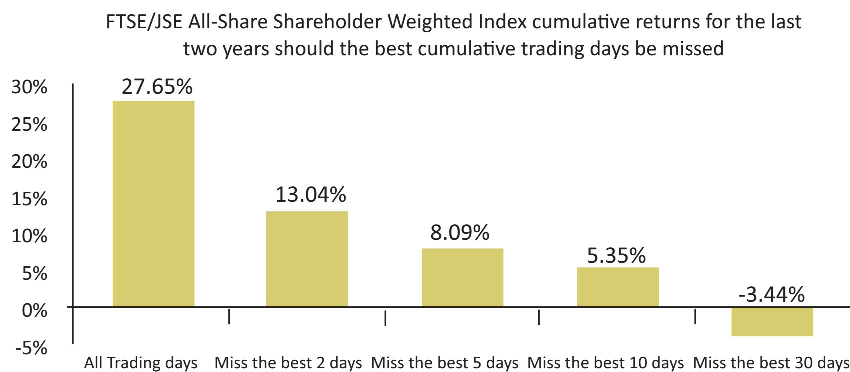
Staying invested - why should you care?

Sonja Saunderson, Chief Investment Officer, Momentum Investments

All too often we are reminded by experts and the media of everything we do wrong in the process of accumulating retirement wealth and not reminded enough of the things that will help us do things right. So, what should we do?

Let's start by reminding ourselves just how strong the growth effect of capital markets is. If you invested R100 000 in the South African equity market in the last two years, you would now have R127 650. That is an implied cumulative growth of 27.65% for this period. If your money was out of the market for two of the best days in which the market moved, you would only have R113 043 (growth of 13.04%). If, however, you got fearful during the COVID-19 turbulent market's up and downs and took your money out of the market for 30 days, you would have lost out on 31.09% of market growth or more than R22 000 in this two year period. If, like most humans, you are likely to keep repeating that mistake over a typical period of retirement fund member accumulation, you could end up losing as much as 2.8% per year or about R1.5 million of your potential savings on this capital over a typical 40 year retirement savings period, if history repeats itself every 10 years.

The below graph illustrates this point for our equity market since 2019.



Source: IRESS, Momentum Investments

Peter Lynch, arguably one of the best investors of all time, said it quite aptly: “stocks are a safe bet, but only if you stay invested long enough to ride out the corrections”. The clearest lesson is to be invested, but more so, to stay invested.

Any extreme market event can occur, leading to adverse returns and disappointing growth in savings during this time. Assume the market falls by 20%, but at different points in her retirement savings journey. The table on the next page shows the effect on her final retirement savings, illustrating the point of just how extreme the effect this negative market event in terms of returns can have on the final balance of retirement savings.

	At 35 years to retirement	At 25 years to retirement	At 15 years to retirement	At 15 years to retirement
10% annual market growth with a 20% market fall once off	-7.80%	-16.81%	-22.47%	-22.47%
20% market fall with 25% recovery in subsequent year	-4.41%	-10.35%	-14.08%	-14.08%
20% market fall, but de-risk and only deliver 5% return in subsequent year	-8.93%	-18.97%	-25.27%	-25.27%

Source: Momentum Investments

To explain further, if the 20% fall happens 35 years to retirement, the effect on the final value is only a 7.8% fall, but it can be as large as a negative 26% effect if this occurs five years to retirement on a bigger savings pool at the time. This highlights the need for members to understand risk in the context of their personal retirement journey, proportionately calibrating it to their retirement goal and the investment horizon.

	20% shock at 35 YTR	20% shock at 25 YTR	20% shock at 15 YTR	20% shock at 5 YTR
Opportunity loss for not staying invested	-4.52%	-8.61%	-11.19%	-12.80%

Clearly the effect of her making too many interfering decisions in her retirement plan at the wrong points in time, albeit seemingly for the logical reasons, can be extremely detrimental in the longer term. This is true even if she was quite far away from retirement.

THE LESSON IS CLEAR. MEMBERS SHOULD BE ASSISTED TO FORMULATE A PLAN, BUT THEN BE ENCOURAGED TO STICK WITH THE PLAN. THEY SHOULD ONLY REVIEW THE PLAN WHEN THEIR CIRCUMSTANCES CHANGE, NOT WHEN THE MARKETS CHANGE. INVESTING IS PERSONAL, AND THE RETIREMENT JOURNEY IS A PERSONAL ONE.

BUT MEMBERS SHOULD ALWAYS BE REMINDED OF ONE IMPORTANT MESSAGE: STAY INVESTED.