Elgin asset management

investment commentary monthly

Monthly Commentary 4th Sep. 2024

August was a frustrating month for investors. At the beginning of the month and after the publication of disappointing US economic data, together with an interest rate hike by the Bank of Japan, there was a sharp sell-off across global equity markets. The TOPIX Index was the hardest hit, dropping 12% on 5th of August, its biggest daily drop since Black Monday in 1987. Investors also took profit in other markets which had performed well over the last couple of months, and the Nasdaq dropped almost 6% over the course of three days. The equity market sell-off was short lived. After the initial spike in volatility investors took comfort in the prospect of lower interest rates as well as a solid Q2 earnings season that showed few signs of an imminent economic slowdown. This allowed most markets to recover their losses by the middle of the month. By the end of the month the S&P500, MSCI Euro and FTSE 100 all ended up with gains of 2.28%, 1.71% and 0.10% respectively. TOPIX recovered most of its losses and closed the month down 1.16%. August was positive for fixed income investors. The Bloomberg Global Aggregate Index was up 2.4% for the month. Among commodities Gold continued its standout performance with gains of 2.28%. On the other hand, Oil was down 5.6%. The dollar as measured by the DXY Index was down 2.3% and Bitcoin fell 8.68%.

Dealing with Market Volatility

Volatility is an inevitable part of investing, a necessary evil and investors must always be prepared to ride the ups and downs. Most serious financial experts caution not to sell into large market drops. The reasons:

- It’s difficult to time when to sell.
- It’s even more difficult to time when to buy back in.
- History is on an investor’s side – as cliché at it sounds, markets have continuously made new highs given time.

As another cliché says, “it’s not about timing the markets but time in the markets”. And market bottoms often prove to be “V” shaped, meaning that when they bounce back, they do so very fast. So how do you deal with market market volatility?

1. **Avoid Daily Monitoring**

   Daily portfolio monitoring can result in an over-emotional reaction and make rational decisions difficult. If you have a well-diversified portfolio as well as a strategy you are happy with, then a less regular (for instance monthly or even quarterly) check should be sufficient.

2. **Invest Regularly**

   If you are thinking about investing but are nervous of the current conditions, one way to counter market ups and downs, as well as take some of the stress out of investing, is to contribute money at regular intervals, say once a quarter, rather than a lump sum in one go.

The advantage of dripping money into the market is that you don't need to worry about market timing. The strategy can even turn market volatility to your advantage as you average down if prices fall further.

3. **Take opportunity of Market Falls**

   If you have been keeping some cash in reserve, market volatility could be an opportunity to consider investments that you previously thought were too expensive. Often the market overly punishes certain areas as panicky investors sell everything they can. This can present opportunities.

4. **Stick to your Plan**

   When there is market turmoil it is easy to get carried away by your emotions. However, investors need to remember their initial plan, their time horizon and the initial reasoning behind each investment.

The Elgin Analysts Team

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