We have all, at some time or another, imagined owning a time machine to travel into the future. We have grand visions of lottery winnings and becoming the next Warren Buffet. ***Imagine the riches!*** *But life is not that simple, and we are not gifted with foresight. However, when we invest, we often act like as if we are...*

Normal human emotions and responses have the ultimate aim of keeping us safe. So it is perfectly natural to want to move to a safer portfolio when you see the market drop. The question is... should you?

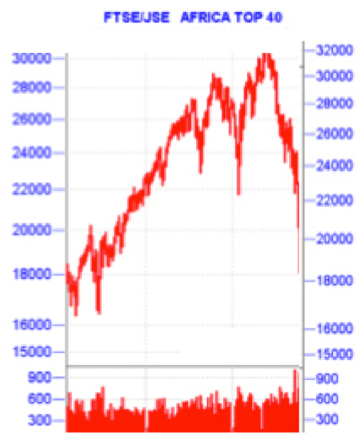
People tend to panic and make rash decisions in times of market volatility. This can ultimately affect both their savings and future negatively.

They often tend to change their investments from their suitable risk profiled portfolio to one that is safer and which deals largely in cash. What members have to understand is that markets will go through slumps – this is inevitable – and even though they may go through weak periods, historically the markets have always managed to correct themselves.

Younger members need to grit their teeth and bear the volatility in the market. Members closer to retirement should ideally not have all their investments in the market, as they do not have time to wait for the market to correct itself.

When markets slump and members see they are losing money, they often remove their money and place it into a 'safer' portfolio. However, 'safer' portfolios are largely invested in cash and have lower returns so when the market begins to correct itself, the member is unlikely to make some, or all of his/her money back. Should the member decide to switch back into the market portfolio again, after the market recovery, he/she will soon realise that remaining in the market portfolio would have ensured better returns than they earned in the 'safer' portfolio.

Let's look at an interesting scenario. If you look at the graph below of the returns for the FTSE/JSE Africa Top 40 companies over a period of three years, it is clear that the market is in a slump. Would you sell your shares and move into cash?



Source: I-Net Bridge

Tick ✓ your option below.

- Move into cash
- Stay in the market

But let's take a look at what would have happened if you had managed not to panic and remained invested in shares:

Source: I-Net Bridge

It is clear that the market returns over the long term were positive. However the short-term returns had the up-and-down wave pattern. **So if you had remained invested in shares for the entire period, you would have been better off, after the market recovery.**

There is no need to wish for a time machine to predict your future investments. Stick to your risk profile, do not let your emotions get the better of you, and **consult a financial advisor first should you wish to make any changes to your investments.** See our other article in this series on how to determine your risk profile.