

June 2022

Investment principles for volatile markets

In times of heightened market volatility and financial stress, it is important for investors to remain disciplined and not give way to rash decisions. Investors should remain cognisant of key investment principles that have held true over many market cycles.

1 Volatility is normal, maintain a long-term investment horizon.

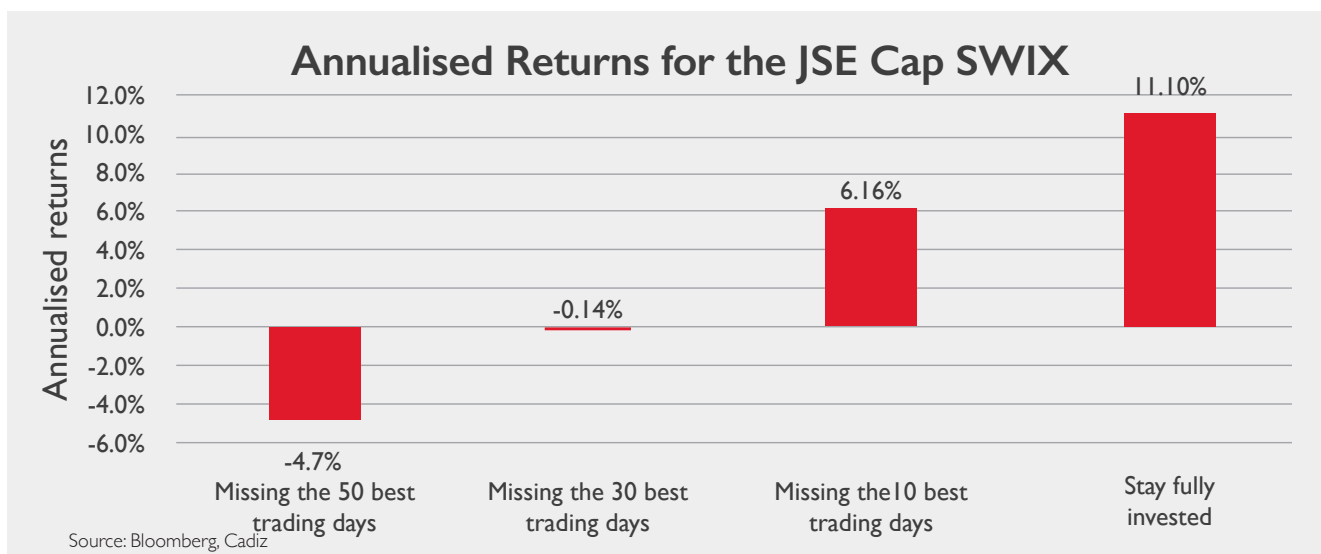
Investors that adopt a long-term approach to investing have a better chance of reaching their investment goals than those who react to short-term market fluctuations. Staying invested over the long term can help reduce volatility, as fluctuations in investment returns tends to smooth out over time. Market volatility is not all bad as it provides buying opportunities where quality assets can be acquired at attractive prices.

2 Act on insight, not instinct.

Markets do not necessarily react to events in a rational manner. Market participants are human beings, and their decisions are often driven by emotional biases rather than thorough analysis. This can lead to knee-jerk reactions in response to market events. When new information enters the market, investment professionals should carefully digest this information, removing fundamental changes from the market noise, and reassess whether their investment thesis still holds true.

3 It's about time in the market, not timing the market.

Selling at the wrong time and missing just a few days of a market recovery can have a significant negative long-term impact on your portfolio. Looking at the FTSE/JSE Capped Shareholder Weighted Index (JSE Cap SWIX) over 10 years, if an investor stayed fully invested over the 10-year period, the annualised return would be 11.10%. Missing just 10 of the best trading days over the 10 years, investors would only experience a 6.16% annualised return. At the extreme end, missing 50 of the best trading days in the 10-year period, the annualised return would be -4.7%.



CADIZ MONEY MARKET FUND – Cadiz Money Market Fund –The number one ranked money market fund over 1, 2, 3, 5, 7 years and 10 years with an annualised yield of 7.32% since inception.

Source: Morningstar | Performance reported for A Class net of fees in ZAR as at 31/05/2022 (ASISA) South African IB Money Market, Inception: 01/03/2006 | Annualised return is the weighted average compound growth rate over the period measured | Benchmark: STeFI Composite ZAR, Category Rank is against the (ASISA) South African IB Money Market Category | Highest Annual Return 12.27%; Lowest Annual Return 4.40%

4 Diversify.

A golden rule in investing is to diversify. Diversifying your portfolio remains key to reducing volatility and risk, which can help smooth out returns over time. The key to diversification is to invest in assets that are uncorrelated or negatively correlated with one another.

5 Re-balance to keep your strategy.

Market fluctuations can often cause your asset weighting to change, commonly known as portfolio drift, which can lead to a different strategy and consequently, an unintended outcome. It is, therefore, important to rebalance your portfolio from time-to-time to maintain your strategy. It also allows the investment professional to lock-in gains and redeploy into attractively-priced assets that have been affected by market fluctuations.

6 Hold your nerve.

Investing fixed amounts on a regular basis (bi-weekly or monthly) helps to maintain discipline when market conditions become volatile. Furthermore, investing regularly smooths out performance overtime, leading to reduced portfolio volatility. The underlying reason is that when you invest a fixed amount when markets are down, you will purchase more units. Conversely, when you invest the same amount when share prices are higher you will purchase fewer units, thus, overall, you should experience a smoother investment experience.



Conclusion.

At Cadiz, we wish to reassure clients that we are fully focused on protecting clients' investments from permanent capital losses, by holding a diverse portfolio of quality assets that we expect to compound growth over the long-term. Furthermore, we believe that the composed and consistent investor will be rewarded in the long run for following the investment principles that have remained true over many market cycles.

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Actual annual figures are available to the investor on request.

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