INVICTUS
Independent Financial Advice

To all Invictus IFA clients and Social media subscribers.

I will be sending out regular updates over the coming weeks.

Today I wanted to make people aware of what impact any one off and/or regular withdrawals during this period may have on your investment recovery over the coming months.

I will try to keep these communications as jargon free as possible which means I will be simplifying many of the points. Please remember that the actual systems and processes are more complicated than this, but these communications are only intended to put you in a more informed position, they do not in any way constitute advice or recommendations.

Overview

Buy low, sell high. Something every investor has heard at some point during their investment experience.

But when is it low, and when is it high?

We know markets are lower at this point than they were 2 months ago, but on a day to day basis you wouldn't know if the following day would be up or down. We can easily look backwards, but unless you have a crystal ball, looking into the future isn't quite so easy.

Taking a longer view can help. Do you think markets and economies will be stronger in 1, 3, 5 or even 10 years' time? If you do and those timeframes coincide with your needs and requirements, then it's a good time to buy.

Pound Cost Averaging

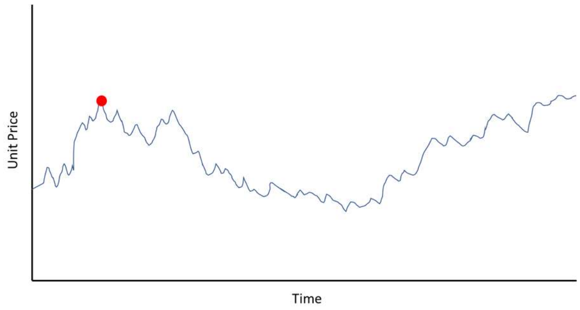
First, I want to explain pound cost averaging. This is an investment method that is quite easy to understand if broken down. Having a good understanding of this investment method will help investors understand the dangers of investment withdrawals during very difficult market conditions like those we find ourselves in right now.

You may have heard of 'Pound Cost Averaging'. This is experienced by people who invest on a regular basis, normally by monthly payments. By investing into their chosen strategy on a regular basis, they average out the ups and downs of the market swings during that time period. This reduces the risk of buying all of your units within a fund when prices were temporarily at a high point.

Let's look at a couple of examples:

Investor A

Investor A has £10,000 and invests it all on the same day into an investment fund.



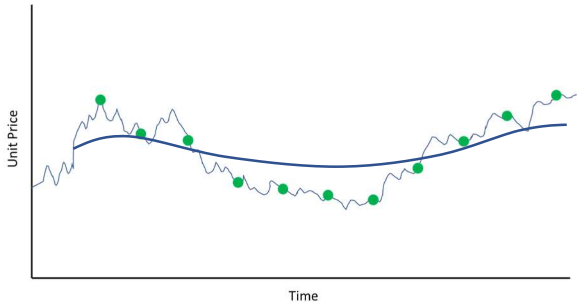
If units are £1 each, the investor has purchased 10,000 units. The unit price then goes up and down.

At 95p per unit the investment is worth £9,500. - 10,000 units x 95p = £9,500.

At £1.05 per unit the investment is worth £10,500. - 10,000 units x £1.05 = £10,500.

Investor B

Investor B invests £100 each month into the same fund.



When units are £1 each, they but 100 units.

When they are 95p each, they buy 105 units – cheaper units = more units purchased.

When units are 90p each, they buy 111 units – cheaper units = more units purchased.

When units are £1.10 each, they buy 91 units – more expensive units = less units purchased.

This method will average out the number of units purchased each month and therefore reduces the risk faced by a lump sum investor. The units purchased at the lowest prices are the units that will help make our investment grow faster when unit prices increase (because you bought more units).

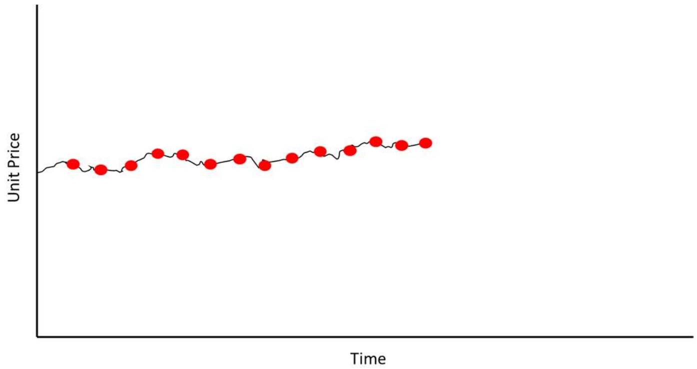
Some people will have heard of this investment method, but those that haven't can easily see the benefits of pound cost averaging. But there is a sting in the tail for people taking regular withdrawals from an investment. Let's look at that in more detail.

Pound Cost Ravaging

This is the result of having to cash in units to fund a regular withdrawal when unit prices are low.

In these examples we see an investor in a fund, taking a regular monthly withdrawal.

Let's assume that each withdrawal is £1,000 per month.



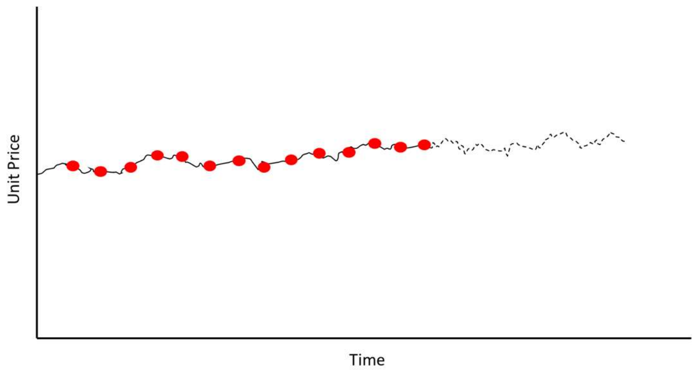
If units are £1 each at the start they have to 'cash in' 1000 units to get their £1,000.

If units rise to £1.05, they will have to 'cash in' 952 unit to get their £1,000.

If units fall to 95p each, they will have to 'cash in' 1052 units to get their £1,000.

And so on…..

This is fine during normal market conditions. Unit prices go up and they go down. Just like the pound cost averaging we looked at before, the investor will average out the number of units needed to generate their desired income.



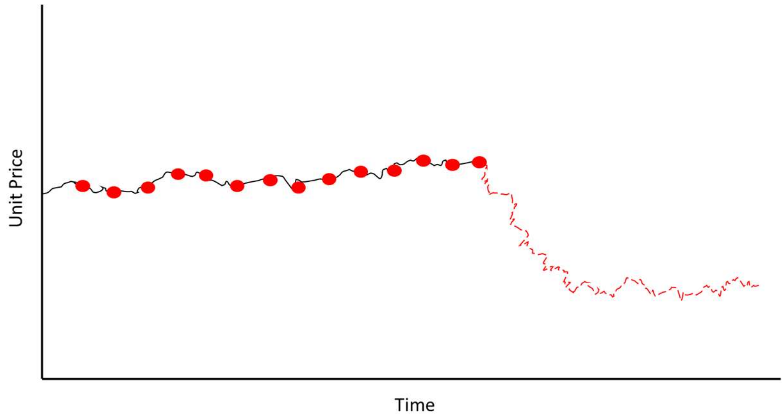
If the investment fund continued to perform along similar levels, with an overall upward trend over the longer term, the income stream and unit encashment is easy to manage.

As the unit prices increase, less units are required to secure the desired income.

But we are not experiencing ‘normal’ market conditions.

What if someone was taking a regular *withdrawal* from their investment funds now?

We’ll look at the same example as before, but with a significant market fall.



As before the investor was trundling along quite nicely cashing in units each month to secure their desired income level, but now unit prices have crashed due to market conditions.

If there has been a 30% fall in unit price from the original £1 to 70p, the investor will now have to cash in 1428 units to generate the same level of income.

That’s 1428 units that are no longer invested to take advantage of any market growth as and when it returns, having a massive impact on how your remaining funds will react to improving market conditions. You will hold less units, so will naturally take longer to recover your losses.

Just as you don’t want to *buy* units when they are high, you really don’t want to *sell* units when they are low.

Unfortunately, achieving growth in an investment is often slower than making losses (as we have recently seen). If an investment falls by 30%, what growth rate will it need to achieve to get back to where it started? It’s not 30%............ Its 43%!

So, from this example you can see how important it is to your overall recovery that you ‘hold on’ to as many units within your investment plans as you can. The more units you have, the quicker your recovery will be.

But I need my income

Please don't think that I'm saying that you should not be taking income from your investments at this time. If you need it, you need it, its as simple as that.

My job is just to put you in an informed position so that you can make the right decisions for your own personal circumstances.

You saved long and hard, took the decision to invest in your own future, and now that's it here, you need to live off the very nest egg you saved.

But do you *need* all the income you take?

If you find yourself with some cash in your current account at the end of each month, ask yourself, do I *need* all the income I'm taking?

If you're saving some of your income or paying it into Cash ISA's, ask yourself, do I *need* all the income I'm taking?

If you feel that you could cut back a little during this crisis, ask yourself, do I *need* all the income I'm taking?

Every unit that stays invested will help you recover your recent losses quicker when unit prices start to increase again.

Please feel free to contact me if you would like to discuss your own personal circumstances in more detail.

Please take care and stay safe.

Richard Scott Dip PFS
Invictus IFA Ltd.