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THE IMPORTANCE OF REMAINING INVESTED

ROCKHOLD ASSET MANAGEMENT

INTRODUCTION

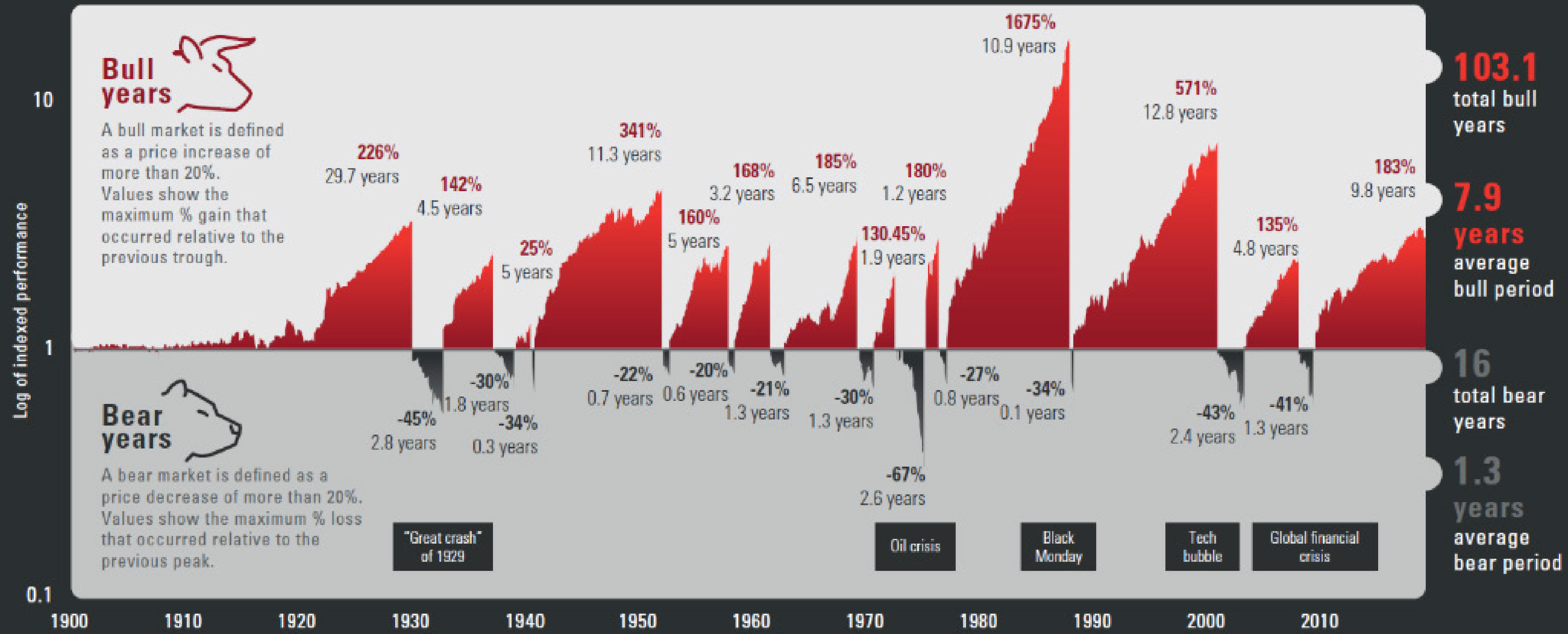
As part of the financial advice process, your financial adviser will no doubt speak with you about so-called risk assets, such as stocks and shares (equities), forming part of your long-term investment plan. They will also discuss with you the risks associated with these assets and how the risks can be mitigated, depending on your tolerance for volatility (the fluctuations in the value of your investments over time).

Alongside this, they will stress that your investment strategy must be over 3-5 years and, crucially, the importance of sticking to the agreed plan (unless personal circumstances dictate otherwise). Unfortunately, many private investors, particularly those without an adviser, can sometimes react to stock market volatility at the wrong time – which results in losses being realised.

This document aims to explain how stock markets behave, what drives them, why you should ignore short term volatility and how, by sticking to the plan, your long-term investment objectives can be achieved.

Firstly, we can look at the long-term nature of the stock market in terms of Bull (rising) and Bear (falling) markets over time. As we can see, for the vast majority of time, stock market returns are positive, but there are a few occasions where they are significantly negative. Fortunately, however, these periods of negative returns are relatively short lived i.e., 1.1 years on average, so can be ridden out by sitting still. This is the reason why your investment plan is a 3-5 year one. Still, the extent of these falls can still be uncomfortable for many people, leading to them selling out at the wrong time, so we will look next at how the impact of these falls can be reduced.

LONG TERM STOCK MARKET RETURNS – BEAR VS BULL MARKETS



SOURCE: VANGUARD

Notes: Calculations are based on FTSE All Share (GBP TR). A bear (bull) market is defined as a price decrease (increase) of more than 20% relative to a previous peak (trough). The plotted areas depict the losses (gains) from a previous peak (trough) to the following trough (peak). Time period: 31/12/1945 to 31/12/2020. Calculations based on month-end data. Logarithmic scale on y axis.

Source: Global Financial Data and Bloomberg.

Past performance is not a reliable indicator of future results. The value of investments, and the income from them may fall or rise and investors may get back less than they invested.

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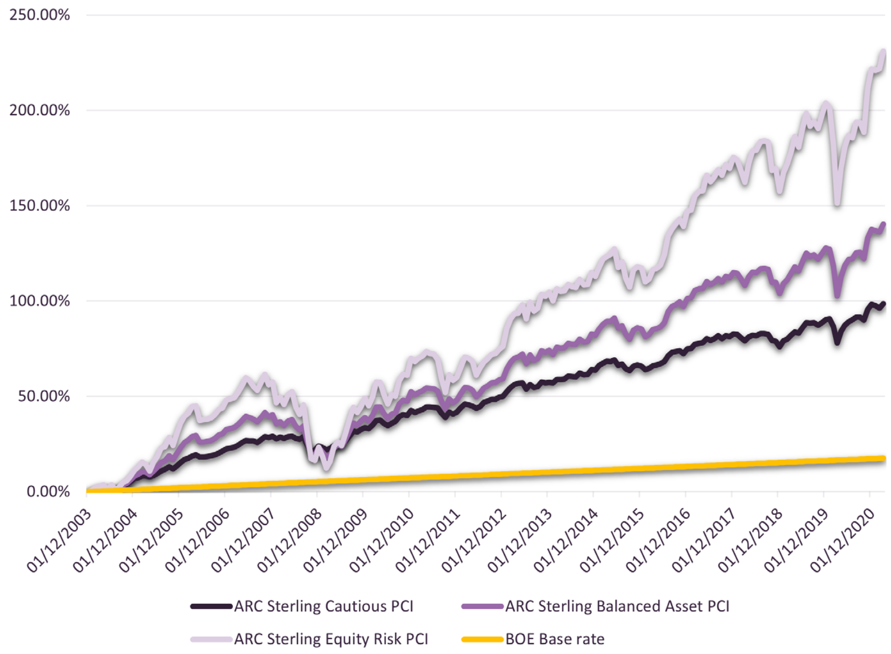
REDUCING THE IMPACT OF FALLS

The chart above is just of the UK stock market and does not include any other types of investment. Your adviser will discuss with you the importance of diversifying your portfolio, which means including other, less risky, investments to accompany stock market based ones. . It must be understood that the level of falls that you are able to tolerate will ultimately have a bearing on the level of returns achieved.

This can be demonstrated by the difference between the returns for three portfolios with differing level of equities: Equity Risk (80%+ equities), Balanced (40 -60% equities) and Cautious (up to 40% equities).

All of them significantly outperform cash, but to differing degrees. The flipside of this, is that the level of negative return during the Great Financial Crisis in 2008/9 (the last sustained Bear market) for the higher risk Equity portfolio is greater than the Cautious.



Source: ARC Sterling Cautious PCI, ARC Sterling Balanced Asset PCI, ARC Sterling Equity Risk PCI - Suggestus

Source: BOE Base rate - Bank Of England

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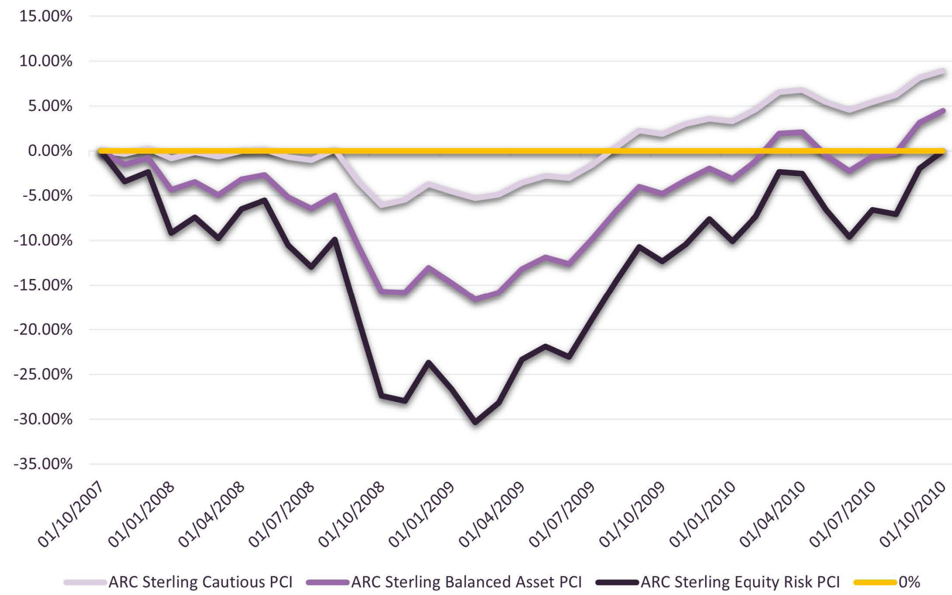
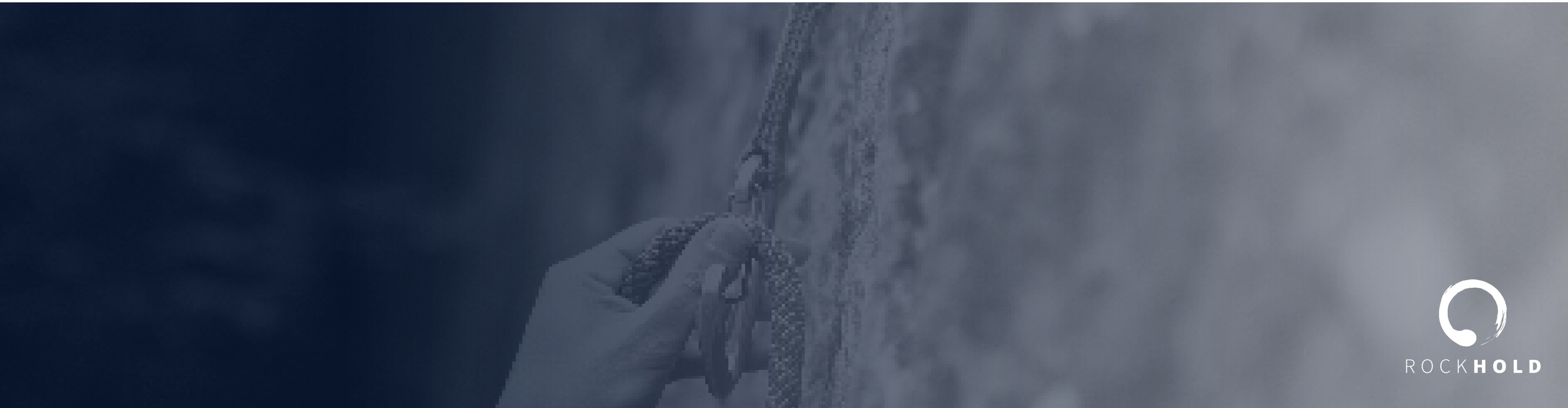
Looking at the next chart, which shows the unlucky investor who managed to invest at the very top of the market in 2007 (actually quite difficult to achieve), you can see the difference in the extent of level of falls between the 3 portfolios described above. However, note that the extent of the falls is lower for all than those shown over the same time period in the UK stock market chart above. In addition, the lower risk portfolios are quickest to recover their initial value, but they all recover this within around 36 months.

This demonstrates both the importance of agreeing the level of diversification in your portfolio with your adviser in the first instance and sticking with your investment plan over time.



Source: ARC Sterling Cautious PCI, ARC Sterling Balanced Asset PCI, ARC Sterling Equity Risk PCI - Suggestus



WHY DO PRIVATE INVESTORS TEND TO SELL AT THE BOTTOM?

So, if it is that simple, why are many private investors driven to sell when the market is in a down phase?

The answer is emotions. We are all human and have certain emotional biases hard-wired into our brains. You can see these shown in the chart below, which show the emotions experienced during differing parts of the stock market cycle and which are heavily influenced by the mainstream news. They can be useful for survival, but not for investing; they cause us to get greedy during the up phases and panic during the down phases.

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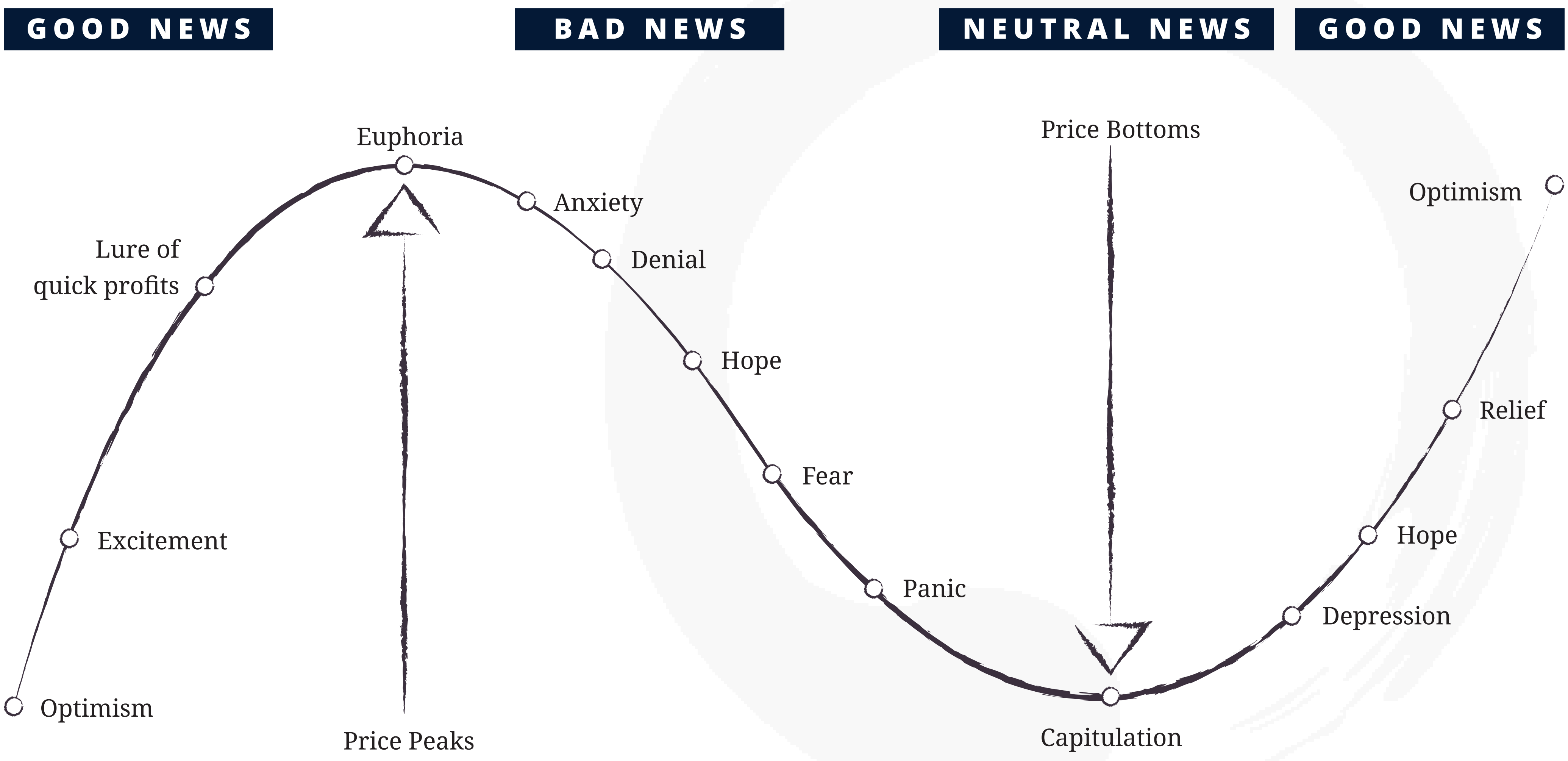
YOUR EMOTIONS AND DECISION-MAKING PROCESSES DURING A STOCK MARKET CYCLE



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Professional investors, however, can behave differently to private investors. This is because they are trained in their field, generally have access better information and, therefore, are better equipped to handle their emotions during the extremes of stock market cycles. Academic evidence* shows that, as a consequence of this and as a general rule, professional investors are selling to private investors towards the top of the market and buying from them when they panic at the bottom.

SO, WHAT IS THE RELEVANCE OF A FINANCIAL ADVISER IN THE CONTEXT OF THE ABOVE?

- They will make sure that your portfolio matches your tolerance for risk in the first place
- As professionals, they generally have access to more information sources than their clients
- They are able to ignore mainstream media 'noise'
- They are less emotive in relation to investments as a result
- Which can help to prevent clients chasing returns in extreme 'up' markets……
- …..as well as stopping them realising losses at the wrong time during 'down' markets i.e. helping them to overcome the fear accompanying market falls
- In summary, they are able to help clients cope psychologically and 'stick with the plan'!

There is increasing evidence to suggest that, when it comes to assessing the value of your financial adviser, their ability to help you cope with the ups and downs of risk-based investments is one of the most significant contributions to that value**

Rockhold Investments, April 2021

*see Kaufman 2005
**See Vanguard 'Adviser Alpha', University of Montreal 'the value of advice', et al.

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ASSET CLASS PERFORMANCE

The table below shows, in an intuitive way, the performance of different asset classes over ten years.

Ranking	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1	Long-Duration Gilt 25.8	Srerling High Yield Bond 37.07	Japan 54.41	Real Estate - REITs 30.51	Japan 12.06	Real Estate - REITs 27.04	**Emerging Market 30.55**	Medium-Duration Gilt 1.18	US Large-Cap 31.49	**Emerging Market 19.12**
2	Medium-Duration Gilt 14.45	Pacific Ex Japan 22.47	US Small-Cap 41.35	Long-Duration Gilt 24.38	Europe Ex UK 8.3	US Small-Cap 26.56	Japan [illegible]	Real Estate - REITs 0.97	Infrastructure 26.99	US Large-Cap 18.4
3	US Sovereign 9.13	Japan 20.86	US Mid-Cap 33.53	US Large-Cap 13.69	Real Estate - REITs 6.45	US Mid-Cap 20.74	US Large-Cap 21.8	US Sovereign 0.88	Europe Ex UK 26.43	US Mid-Cap 13.66
4	Short-Duration Gilt 5.79	Europe Ex UK 18.78	US Large-Cap 32.39	Infrastructure 12.98	Srerling High Yield Bond 5.43	Long-Duration Gilt 16.85	Infrastructure 20.13	Long-Duration Gilt 0.48	US Mid-Cap 26.2	Long-Duration Gilt 12.76
5	Global Fixed Income 5.64	US Mid-Cap 17.88	Europe Ex UK 23.12	Japan 10.27	Aggresive Allocation 2.09	UK 16.75	Pacific Ex Japan 19.43	Short-Duration Gilt 0.41	US Small-Cap 22.78	US Small-Cap 11.29
6	Real Estate - REITs 3.02	Real Estate - REITs 17.57	UK 20.81	Medium-Duration Gilt 9.97	Sterling Corporate Bond 1.63	Aggresive Allocation 14.16	US Mid-Cap 16.24	Sterling Corporate Bond -0.93	Real Estate - REITs 19.56	Global Fixed Income 9.20
7	Sterling Corporate Bond 2.92	**Emerging Market 16.99**	Pacific Ex Japan 16.39	US Mid-Cap 9.77	Balanced Allocation 1.51	Infrastructure 12.43	Europe Ex UK 13.59	Global Fixed Income -1.20	UK 19.17	US Sovereign 7.94
8	US Large-Cap 2.11	US Small-Cap 6.33	Infrastructure 14.99	Sterling Corporate Bond 7.93	US Large-Cap 1.38	US Large-Cap 11.96	US Small-Cap 13.23	Srerling High Yield Bond -1.63	Japan 18.12	Japan 7.39
9	Cautious Allocation 1.38	US Large-Cap 16.00	Aggresive Allocation 14.82	Europe Ex UK 6.63	UK 0.98	Commodity 11.77	UK 13.1	Cautious Allocation -3.41	**Emerging Market 18.06**	Aggresive Allocation 7.01
10	US Small-Cap 1.02	Sterling Corporate Bond 15.42	Srerling High Yield Bond 11.84	US Small-Cap 5.76	Medium-Duration Gilt 0.94	Balanced Allocation [illegible]	Aggresive Allocation 11.09	US Large-Cap -4.38	Pacific Ex Japan 18.05	Sterling Corporate Bond 5.51
11	Infrastructure -0.39	UK 12.3	Balanced Allocation 9.21	Pacific Ex Japan 5.71	Short-Duration Gilt 0.89	Srerling High Yield Bond [illegible]	Srerling High Yield Bond 7.84	Pacific Ex Japan -4.47	Aggresive Allocation 15.64	Srerling High Yield Bond 4.59
12	Balanced Allocation -1.62	Infrastructure 11.89	Cautious Allocation [illegible]	Srerling High Yield Bond 5.65	Cautious Allocation 0.85	**Emerging Market 9.69**	Global Fixed Income 7.39	Balanced Allocation -5.11	Srerling High Yield Bond 13.37	Medium-Duration Gilt 4.58
13	US Mid-Cap -1.73	Aggresive Allocation 10.34	**Emerging Market 3.44**	Cautious Allocation 5.31	US Sovereign 0.85	Cautious Allocation 9.06	Balanced Allocation 7.2	Aggresive Allocation -6.64	Balanced Allocation 12.08	Cautious Allocation 3.98
14	Srerling High Yield Bond -3.02	Balanced Allocation 8.69	Sterling Corporate Bond [illegible]	**Emerging Market 5.17**	Long-Duration Gilt 0.01	Pacific Ex Japan 8.34	Cautious Allocation 5.01	US Small-Cap [illegible]	Long-Duration Gilt 11.44	Balanced Allocation 3.49
15	UK -3.46	Cautious Allocation 7.02	Real Estate - REITs 0.42	Balanced Allocation 5.17	Pacific Ex Japan -0.98	Sterling Corporate Bond 7.41	Sterling Corporate Bond 4.26	UK [illegible]	Cautious Allocation 8.8	Short-Duration Gilt 1.87
16	Aggresive Allocation [illegible]	Global Fixed Income 4.32	Short-Duration Gilt -0.81	US Sovereign 4.96	US Small-Cap -1.97	Medium-Duration Gilt 6.59	Long-Duration Gilt 3.26	Infrastructure [illegible]	Commodity 7.69	Europe Ex UK 1.43
17	**Emerging Market -12.74**	Medium-Duration Gilt 4.04	Global Fixed Income -2.6	Aggresive Allocation 4.83	US Mid-Cap -2.18	Short-Duration Gilt 2.89	US Sovereign 2.3	**Emerging Market -10.08**	Sterling Corporate Bond 7.31	Pacific Ex Japan 0.31
18	Europe Ex UK -12.87	Long-Duration Gilt 3.16	US Sovereign -2.63	Short-Duration Gilt 3.42	Global Fixed Income [illegible]	Europe Ex UK 2.31	Commodity 1.7	US Mid-Cap -11.08	Global Fixed Income 6.84	Commodity -3.12
19	Pacific Ex Japan -12.89	US Sovereign 2.02	Medium-Duration Gilt -4.45	UK 1.18	**Emerging Market -5.76**	Global Fixed Income 2.09	Medium-Duration Gilt 1.28	Commodity -11.25	US Sovereign 6.83	Infrastructure -5.76
20	Commodity -13.32	Short-Duration Gilt 1.06	Long-Duration Gilt -6.35	Global Fixed Income 0.59	Infrastructure -11.46	US Sovereign 1.06	Short-Duration Gilt -0.25	Europe Ex UK -11.31	Medium-Duration Gilt 3.93	UK -9.82
21	Japan -17.00	Commodity -1.06	Commodity -9.52	Commodity -17.01	Commodity -24.66	Japan 0.31	Real Estate - REITs -1.36	Japan -15.97	Short-Duration Gilt 1.17	Real Estate - REITs -13.17

WHAT DOES THIS TABLE TELL US?

- Asset classes' performance varies significantly from year to year
- Diversification is key: It is a high risk strategy to pin your investment strategy on one or two asset classes in the hope that they might be next year's winner; they could also be next year's loser. Holding a range of these assets spreads your risk. However, the proportions will be decided by your attitude to risk.
- Market capitalisation should not be ignored: the largest market in the world, US large cap, has been in the top 10 over every period and in the top 5 on 5 out of the 10 periods.
- If you are 'tilting' your asset allocation, it is important to have a forward looking view in order to capture the potential returns of those performing assets and reduce the impact of the underperforming ones. Not many asset classes that have performed well in the previous year, do so the next year, so looking back can be perilous (e.g. emerging markets)
- Having a bias to your domestic market (so called, home bias) at all times, can lead to allocation to underperforming assets: the UK has been out of the top ten 50% of the time.

All Rockhold portfolios have diversification and risk management at their core. Using a forward looking investment process, our investment managers will tilt the portfolios based on their years of experience, whilst maintaining diversification. The intention being to reduce exposure to the assets that are likely to drag on performance in the coming year and increase exposure to those asset classes that are likely to make a positive contribution.

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Important Information