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FACTSHEET

Dot-com crash to global financial crisis

Busting the myths of investment companies' performance

Saturday 15 September 2018 marked ten years since the collapse of Lehman Brothers. And with the bull market following the global financial crisis – now the longest in history in the US – it's useful to revisit the past.

The Association of Investment Companies (AIC)[1] has looked at the long-term performance of investment companies from just before the dot-com bubble burst in 2000 and just after the collapse of Lehman Brothers in October 2007.

DOT-COM BUBBLE

The bursting of the dot-com bubble in March 2000 caused the FTSE 100 to enter a period of significant decline, reaching its lowest levels around October 2002. A £1,000 investment in the average investment company at the beginning of March 2000, just before the downturn, would have recovered and grown to a staggering £4,350 at the end of August 2018 – a gain of 335%. While 18-and-a-half years is a long time, it includes a recovery from both the dot-com crash and the global financial crisis and is an example of the benefits of long-term investing, particularly when the original £1,000 investment would have initially fallen to £660 in October 2002 before recovering.

GLOBAL FINANCIAL CRISIS

The global financial crisis of 2007 to 2009 was a period of market turmoil and a major economic downturn. A £1,000 investment in the average investment company at the beginning of October 2007, when markets were near their highest levels before the crash began, would now be worth £2,470 (end August 2018) – a 147% increase almost 11 years later. This is particularly impressive given that the investment fell to £580 around the time of the market low in February 2009, and it demonstrates again the benefits of investing with a long-term view.

INVESTING OVER THE LONG TERM

The data suggests that even when investing near market highs, lump sum investments beat regular investments over the long term. For example, a £50 monthly investment in the average investment company from October 2007 to August 2018 (£6,550 invested) would now be worth £13,736 (end August 2018) – a gain of 110%. However, a lump sum investment of £6,550 over the same time frame would now be worth £16,178 – a gain of 147%. Over longer time frames, the difference is even greater. Investing £50 a month in the average investment company from March 2000 to August 2018 (£11,100 invested) is now worth £37,240 – an increase of 235%. Whereas £11,100 invested as a lump sum over the same period is now worth £48,281 – an increase of 335%.

TIME IN THE MARKET, NOT TIMING THE MARKET

It can be tempting to try to time stock market investments, but as the saying goes, 'Time in the market, not timing the market' really has held true. Investors who invested in investment companies at the top of the market before the financial crisis and were able to hold on through the downturn would still have generated very strong returns over the long term.

SMOOTH THE VOLATILITY OF MARKETS

Investing in lump sums has outperformed regular investing over these longer time frames as more money has been invested in an ultimately rising market. However, regular investments are a convenient way to invest for people who do not have a lump sum, and they allow anxious investors to sleep more soundly at night because they smooth the volatility of markets.

Source data:

[1] The Association of Investment Companies (AIC) was founded in 1932 to represent the interests of the investment trust industry – the oldest form of collective investment. Today, the AIC represents a broad range of closed-ended investment companies, incorporating investment trusts and other closed-ended investment companies and VCTs. The AIC's members believe that the industry is best served if it is united and speaks with one voice. The AIC's mission statement is to help members add value for shareholders over the longer term. The AIC has 354 members, and the industry has total assets of approximately £188 billion.

MAKING INFORMED INVESTMENT DECISIONS

Whether you're investing for the medium or long term, the option you choose is likely to be influenced by your attitude to risk and investment needs. We can help you make informed decisions about your future investment goals – to find out more, contact us for further information.