When can falling equity markets be a positive?

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Smart investment Management

Nobody likes to see the value of their investments fall but following recent declines in global equity markets that is exactly what investors have experienced. If we are approaching the end of the current expansion as many experts predict, markets could see further declines. On the flip side, there are indicators to suggest that we could continue to see growth for some time longer. This poses a number of challenges for both advisers and investors who want to minimise losses but still want to participate in any growth in markets that may yet come.

Smartfund 80% Protected aims to deliver equity like returns but with capital protection equal to 80% of the highest fund price ever achieved. This means that clients have a minimum of 80% of their capital protected from the day that they invest. The important word here is minimum – because the protection is always linked to the highest fund price, as the current value of the fund falls, the protection level on the day of entry effectively increases. Let's look at an example:

The highest NAV of the Smartfund Protected Growth C GBP fund is 1,303.80*. The protected price is now 80% of 1,303.80 or 1,043.04*. The current price is 1,182.55* but investors benefit from a protected price, or a floor, of 1,043.04. This means that someone buying at the current price has a protection level of 1,043.04 or 88% of their investment. They are therefore putting a maximum of 12% of their capital at risk. If global equity markets continue to fall which in turn leads to a fall in the fund unit price, then the protection level at the point of entry gets higher.

So, whilst a fall in the value of an investment can be hard to watch, with Smartfund 80% Protected it does create an opportunity for new investors to participate at higher levels of protection.

If we are approaching the end of the current market expansion, then increased levels of protection could be attractive to many investors. Should markets still have a way to go before that point then being invested in an equity portfolio will ensure that the potential for growth still remains. This is particularly relevant to investors who are wary of taking on equity exposure at this time. History has shown us that trying to time the markets is all but impossible, so a fund that offers an element of capital protection coupled with equity exposure and daily dealing should appeal.

*all prices as at 10th October 2018

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