STEPS

Russell Investments

Steps to successful investing

Helping to turn client goals into reality

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Let's make the complex simple

Successful investing is hard. Reaching your investment goal is no easy task, because financial markets are complicated and can be unpredictable. But by getting a better understanding of investment principles you can avoid some common pitfalls. Follow these principles, and together with your financial adviser, we'll work to turn your goals into reality.

Spend time in the market instead of timing the market

Get the balance right

Don't put faith in star funds

Spend time in the market instead of timing the market

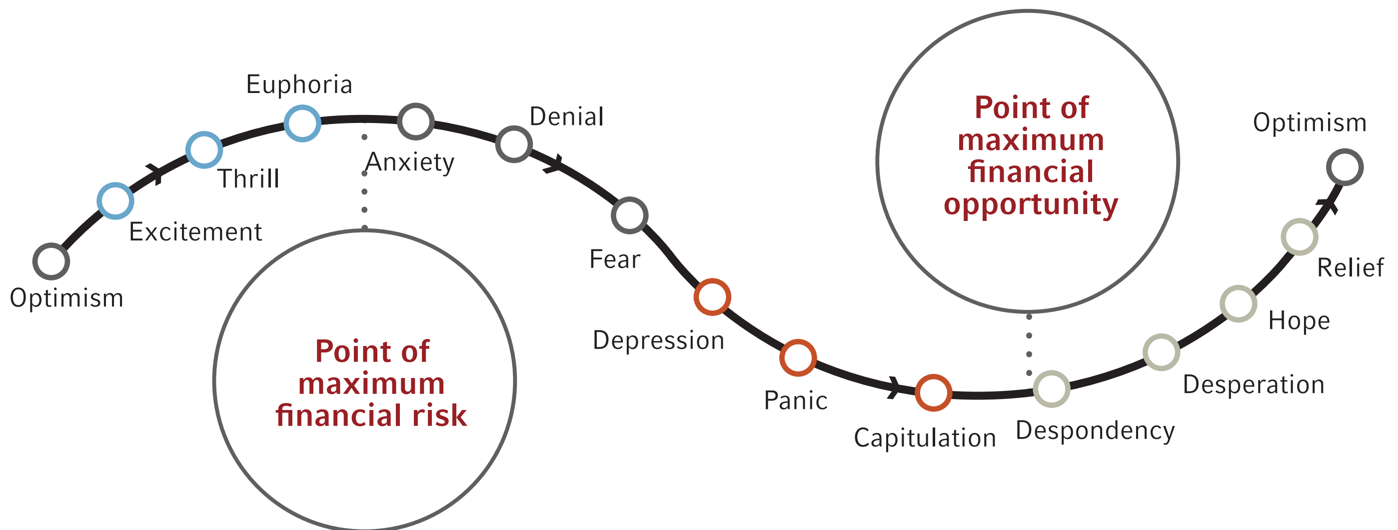
Successful investors are marathon runners, not sprinters. So staying invested in the markets over the long term usually gives the best returns.

When you see the markets fluctuate, it can be tempting to buy and sell investments to chase short-term gains. But this will rarely help you meet your longer-term financial goals.

Investing is a human activity. To succeed, we need to be aware of how emotions may impact our investment actions. As the chart shows, investors experience a range of emotions at different points of a market cycle. Unfortunately, this can often result in entering or exiting the market at precisely the wrong time.

As markets peak, we may all feel excited and be tempted to flood into the market. But this is often the worst time to do so, as markets are likely to be over-priced at this point. At the other end of the spectrum, when markets dip, investors often feel panic and the fight-or-flight part of our brains urges us to exit the market.

The Cycle of Market Emotions



		EXCITEMENT THRILL EUPHORIA		ANXIETY DENIAL FEAR		DEPRESSION PANIC CAPITULATION		DESPONDENCY DESPERATION HOPE OPTIMISM
Market Cycle 1	30%	**NOV 1971-DEC 1972** • Inflationary pressures. Productivity improvements • Rapid corporate earnings growth • Introduction of paperless technology	-15%	**JAN 1973-JAN 1974** • OPEC Oil crisis – crude oil prices tripled. Inflation • Credit squeeze • Property company failures	-24%	**FEB 1974-NOV 1974** • Global recession • Extended bear market	39%	**DEC 1974-JUN 1975** • Stock market recovery despite recession
Market Cycle 2	136%	**AUG 1984-AUG 1987** • Credit boom • Strong world economic growth	-2%	**SEP 1987** • Irrational shareholder sentiment • Peak of overinflated stock values vs historical PEs	-28%	**OCT 1987-NOV 1987** • 1987 Global stock market crash	64%	**DEC 1987-DEC 1989** • Stock market recovery as value hunters sought to buy quality stocks cheaply
Market Cycle 3	99%	**APR 1997-SEP 2000** • Tech boom. Investor exuberance • Emergence of 'new economy' sectors	-28%	**OCT 2000-SEP 2001** • Tech bubble burst • September 11 terrorist attacks	-22%	**MAR 2002-FEB 2003** • Reduced global economic growth forecasts • Extended bear market • Corporate accounting scandals	52%	**MAR 2003-MAY 2005** • Geopolitical uncertainty • Refocus on world economic fundamentals • Boom in resources in response to industrialisation of China
Market Cycle 4	28%	**JUN 2005-JUL 2007** • UK house prices hit highs • Credit boom • Higher interest rates	-17%	**AUG 2007-SEP 2008** • Credit crunch. Sub-prime mortgage crisis. Collateralised debt obligation (CDO) failures • Lehman Brothers declares bankruptcy	-37%	**OCT 2008-FEB 2009** • Global financial crisis • European and U.S. recessions. Negative real GDP reported for major developed countries in Q4 2008	225%	**MAR 2009-DEC 2015** • Global stock market recovery • Deleveraging, slow economic growth
Market Cycle 5	40%	**JAN 2015-DEC 2019** • Return to full employment in U.S. • Optimism rises with U.S. tax cuts • Trade war creates volatility in 2018 • 2019 Fed rate cuts extend the cycle	5%	**Jan 2020** • Reports of a virus outbreak in Wuhan China • Small number of cases reported in Europe and North America by the end of January 2020	-35%	**FEB 2020-MAR 2020** • COVID-19 pandemic market crash	+73%	**MAR 2020-DEC 2020** • Rebound despite lockdowns • Tech surges on working from home shift • Vaccine hopes

For illustrative purposes only. Latest month end data as at 31 December 2020.
Source: Russell Investments.

Which asset class will be the winner in 2021?

Best performing	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1	UK Gilts 16.2	Sterling High Yield Bonds 20.4	North American equity 30.6	North American equity 17.8	Japanese equity 16.2	Global Emerging Market equity 32.5	Asia Pac equity ex Japan 24.79	Cash 0.45	North American equity 25.0	Asia Pac equity ex Japan 19.15
2	Sterling Corporate Bonds 5.3	European equity ex UK 19.4	UK All Companies 26.5	UK Gilts 14.9	European equity ex UK 9.4	North American equity 31.3	Global Emerging Market equity 24.58	UK Gilts 0.09	UK All Companies 21.9	North American equity 15.21
3	Sterling Strategic Bonds 3.9	Asia Pac equity ex Japan 16.6	European equity ex UK 26.3	Property 13.1	Property 5.6	Asia Pac equity ex Japan 26.6	Japanese equity 16.99	North American equity -1.08	European equity ex UK 20.3	Global Emerging Market equity 13.78
4	Cash 0.0	UK All Companies 15.4	Japanese equity 26.1	Sterling Corporate Bonds 10.6	UK All Companies 5.0	Japanese equity 23.0	European equity ex UK 16.94	Sterling Corporate Bonds -2.18	Property 19.1	Japanese equity 11.80
5	Sterling High Yield Bonds -1.8	Sterling Strategic Bonds 14.4	Sterling High Yield Bonds 8.0	Asia Pac equity ex Japan 9.7	North American equity 4.5	European equity ex UK 17.5	UK All Companies 12.91	Sterling Strategic Bonds -2.29	Japanese equity 16.1	UK Gilts 8.60
6	North American equity -2.0	Sterling Corporate Bonds 14.3	Property 5.6	Sterling Strategic Bonds 6.9	Sterling Strategic Bonds 0.4	UK All Companies 11.0	North American equity 10.23	Property -3.41	Global Emerging Market equity 15.9	European equity ex UK 8.53
7	Property -5.3	Global Emerging Market equity 13.6	Sterling Strategic Bonds 3.5	Global Emerging Market equity 3.4	Cash 0.2	Sterling High Yield Bonds 9.8	Property 6.65	Sterling High Yield Bonds -3.85	Asia Pac equity ex Japan 14.9	Sterling Corporate Bonds 7.78
8	UK All Companies -6.8	Property 12.8	Asia Pac equity ex Japan 1.9	Sterling High Yield Bonds 2.0	Sterling Corporate Bonds 0.2	UK Gilts 9.8	Sterling High Yield Bonds 6.05	Asia Pac equity ex Japan -9.30	Sterling High Yield Bonds 11.7	Sterling Strategic Bonds 5.88
9	Japanese equity -11.3	North American equity 7.5	Sterling Corporate Bonds 1.3	UK All Companies 0.9	Sterling High Yield Bonds 0.0	Sterling Corporate Bonds 9.2	Sterling Strategic Bonds 5.25	UK All Companies -10.61	Sterling Corporate Bonds 9.6	Sterling High Yield Bonds 3.23
10	European equity ex UK -15.4	Japanese equity 3.3	Cash 0.2	Japanese equity 0.4	UK Gilts 0.0	Sterling Strategic Bonds 6.7	Sterling Corporate Bonds 5.12	Japanese equity -10.62	Sterling Strategic Bonds 8.9	Cash 0.45
11	Asia Pac equity ex Japan -16.3	UK Gilts 2.0	Global Emerging Market equity -3.8	Cash 0.3	Asia Pac equity ex Japan -2.8	Property 3.6	UK Gilts 1.57	Global Emerging Market equity -11.41	UK Gilts 6.5	Property -7.13
12	Global Emerging Market equity -19.1	Cash 0.5	UK Gilts -4.9	European equity ex UK -0.9	Global Emerging Market equity -9.2	Cash 0.3	Cash 0.16	European equity ex UK -11.78	Cash 0.6	UK All Companies -7.67
Weakest performing										

Source: The Investment Association as at 31 December 2020.

Figures show the median percentage rise or fall of each asset grouping per calendar year. Figures do not include fees or other charges. The effect of these would reduce the figures quoted.

Get the balance right

Typically, all around the world, investors tend to have too much exposure to their own market – the market you know best is the easiest to invest in. For example, many investors in the UK hold too many investments in UK-based companies.

Statistics show that if you have a well-diversified portfolio of investments, you'll often achieve better returns. Different assets or regions will perform differently, and can often vary significantly year to year. The diversification that comes with this varied performance can help reduce the risk of having all your assets drop at once.

The chart opposite shows the performance of different asset classes over the last 10 years. You'll see that assets classes perform erratically from year to year. And asset classes that are the best performer one year can become the worst performer the following year. Like trying to predict the winner of the Grand National, it's very difficult to predict the best performing sector year to year.

What's the remedy?

By having a diversified portfolio covering a range of regions and asset classes, it's often possible to get better returns over a period of time, and with less volatility.
Markets will change, so you need a solution that is dynamically managed.

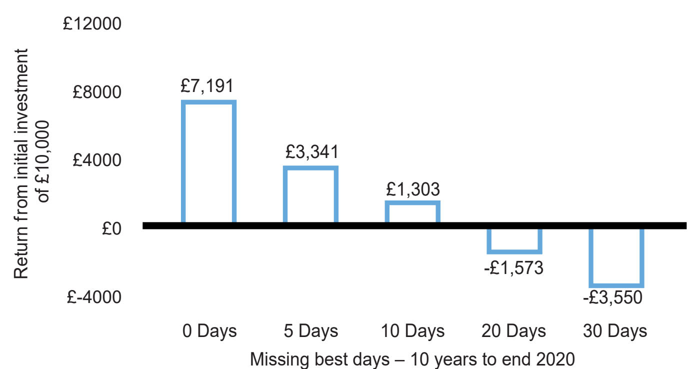
It's easy to miss the best day

Trying to time the market has plenty of risks, but the biggest may be the risk of missing out. Exiting the market to reduce risk during a downward-trending market can mean missing some of the biggest rebound days. To put it another way, by selling when the market is near the bottom of a downturn, you can easily miss out on the best of the upside.

The table on the right shows the effect of missing out on some of the best days for performance during a 10 year investment period using an initial investment of £10,000 in UK companies.

In this example, if you'd stayed invested for the full ten year period, you'd have enjoyed a profit, before fees and charges are applied, of £7,191. Investors who missed the five, ten and twenty best days saw profits, before fees and charges are applied, drop to £3,341, £1,303 and £1,573 respectively. Those who missed the best 30 days saw a loss of £3,550.

Missing out on the best performance



For illustrative purposes only.
Source: Morningstar. FTSE All Share Total Return. Data as at 31 December 2020. Based on investment of £10,000. Figures do not include fees or other charges. The effect of these would reduce the figures quoted. Any past performance figures are not a guide to future performance.

What's the remedy?

We believe the wisest investors are the ones who spend the time up front to create a good long-term strategy, and then have the discipline to stay in the market when necessary, even if it feels uncomfortable. Statistically, they have the best chance of success. Your adviser will be able to help you create an investment strategy to meet your goals.

Don't put your faith in star funds

The best fund one year could be the worst fund the following year.

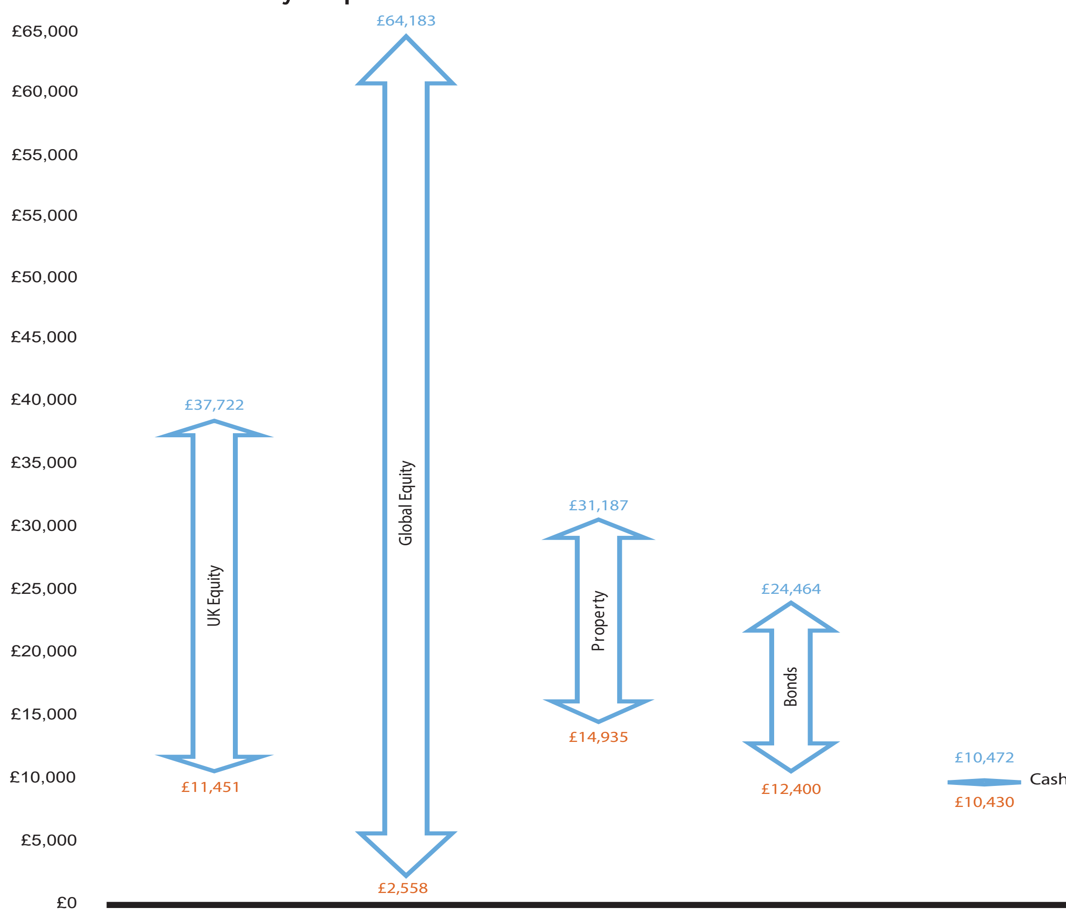
There are hundreds of funds available from different managers – for example, the UK All Companies sector alone contains over 200 funds.*Many of them seem to offer similar investment opportunities. But the difference in performance can be dramatic.

The chart below shows you the difference between the best and worst performing funds in different asset classes. Over ten years, the range of profits from investing £10,000 in either shares in UK listed companies, or shares from worldwide companies, is significant. For example, some investors would have made a 440% profit (net of fees) over the ten years shown, but another investor would have made a 49% profit.

So it seems you need to make sure you invest in the best fund. But how to tell which is the best? Choosing a 'star' fund manager isn't a sure way to guarantee ongoing top performance.

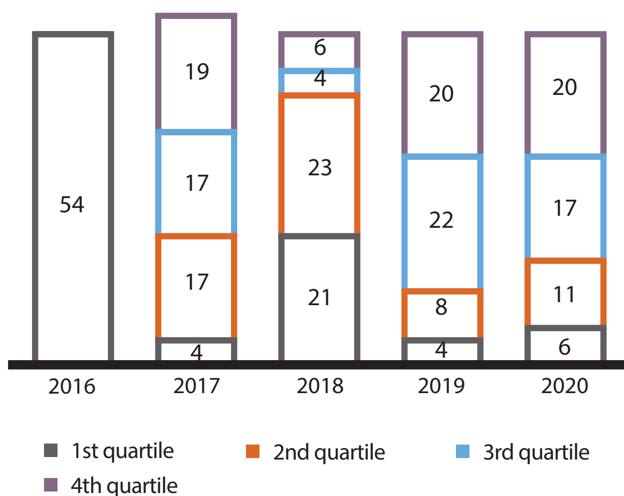
*Source: Morningstar, February 2021.

The difference between the best and worst fund choice with a £10,000 investment over a 10-year period



For illustrative purposes only.

Source: The Investment Association sectors, 31 December 2020. Data shows returns from a £10,000 investment in the Morningstar funds sectors (Bond GBP, Equity Global, Equity UK, Money Market GBP, Real Estate UK) Between 1 Janaury 2010 and 31 December 2020.



For illustrative purposes only.

Source: The Investment Association sectors, 31 December 2020.

Number of funds in top quartile for 1 year performance 2016 and their subsequent positions until 2020.

The performance of many funds varies significantly (when compared to their peers) each year. The chart on the left shows how easily successful funds can fall from glory. The performance of the top 25% of fund managers tends to weaken over time. Of the 56 companies in the top 25% of performers for one year, only four remained in the top 25% a year later.

What's the remedy?

To succeed in today's market requires an additional layer of diversification across fund managers and asset classes. Dynamic portfolio management can help your investments respond to changing market conditions.

Let's take a different path

We know investing is hard. And we know what's at stake: the financial future of people like you.

At Russell Investments, we have a unique set of capabilities to design, construct and manage investment solutions. Researchers and analysts are scouring the market for the right opportunities on your behalf. We use this research to develop sophisticated portfolios that combine the skills of diverse investment managers – all of them among the very best in their field. We'll blend these best-of-breed active managers with customised passive exposures.

This approach builds in diversification. We not only spread investment risk across asset classes and geographies, but across manager styles as well. Because of this, we aim to deliver more consistent performance over time with lower risk when compared to less diversified solutions.

We constantly monitor and adjust these portfolios, so you can be safe in the knowledge that we're on top of changing market conditions.

Our goal is to give you the returns you need, but with a level of risk and volatility that helps you feel confident to stay invested over the long term. We believe this approach gives you the highest likelihood of meeting your goals.

There's a range of Russell Investments portfolios available. Talk with your adviser to choose the solution that's right for you. Then we'll get to work on turning your goals into reality.

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