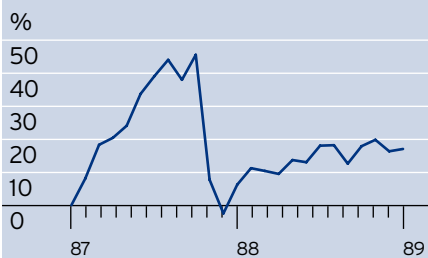


## How to survive stockmarket ups and downs

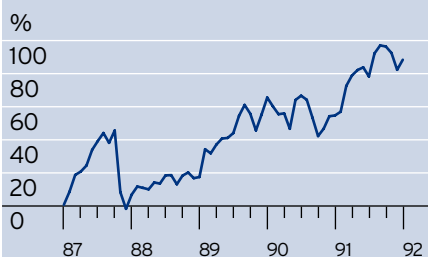
Even experienced professionals are sometimes unnerved by market behaviour. It can be easy to become fixated on the short term ups and downs of the stockmarket. So how does an investor cope with this? One way is to focus on the bigger picture - the long term.

**Chart A** 'Black Monday 1987' crash and its effects after 2 year period



The above chart reflects the FTSE 100. Past performance is on a mid-price, sterling basis inclusive of net reinvested income to 31 December 1988. (Source: Lipper, a REUTERS Company).

**Chart B** 'Black Monday 1987' crash and its effects after a 5 year period



The above chart reflects the FTSE 100. Past performance is on a mid-price, sterling basis inclusive of net reinvested income to 31 December 1991. (Source: Lipper, a REUTERS Company).

**Chart C** 'Black Monday 1987' crash and its effects after a 19 year period



The above chart reflects the FTSE 100. Past performance is on a mid-price, sterling basis inclusive of net reinvested income to 31 December 2006. (Source: Lipper, a REUTERS Company).

### Black Monday 1987 - the stockmarket's darkest day or a good investment opportunity?

Stockmarket falls can be steep, quick and all too memorable when they happen. Many people remember the market crash in October 1987 that was named 'Black Monday'. A stockmarket slump can be a worrying time for any investor and on a day as dark as 'Black Monday' it is hard not to focus on share prices as they fall. However history has shown that those who can resist the natural temptation to reduce their holdings, or perhaps are even brave enough to view such periods as good investment opportunities, may well be rewarded in the long run.

At the time, this stockmarket correction seemed disastrous as millions of pounds were wiped off the value of equities on the main UK stockmarket index - the FTSE 100. But what if we take a step back and look at 'Black Monday 1987' as part of a bigger picture?

**Chart A** shows the UK equity market over a two year period including the 'Black Monday 1987' crash.

**Chart B** shows the same stockmarket over a five year period, where despite the drop in 1987, the market not only recovered, but went on to make significant gains. Typically, when political, military or economic news is driving prices lower, the market tends to take a pessimistic view of events, prompting an initial sharp decline. However, soon after the sellers leave the market and the bottom is reached, we often see the first good news arrive, which may feed through into a market rally.

As an investor, it is important not to miss out on such rallies, as equities can deliver significant gains in the first months or years after major indices, such as the FTSE 100, hit their low points.

Finally in **Chart C**, which covers the period from 1987 to December 2006, the 'Black Monday' crash appears insignificant and the subsequent recovery of the stockmarket substantial. There have been further stockmarket corrections, between 2000-2003 for example, but again we see a recovery in the following years. The key message here is that despite some monumental events and serious setbacks over the period, the historical case for investing in equities for long-term growth remains strong.

Past performance is not a guide to future returns.

### What can we learn from the 'Black Monday 1987' example?

#### Stay invested

It can be a natural reaction to become pre-occupied with day-to-day market fluctuations when things have taken a turn for the worse, however this could lead to some rash decisions over the future of your investments.

If you react to a market drop by selling off your investments, you are in effect locking in those losses. Patient investors have historically been rewarded by long-term stockmarket returns despite occasional market volatility.

#### Keep focused on the bigger picture

It's important to give your investment objectives some perspective - for example are you retiring soon or in 20 years? It's important that you review your financial goals, as they will evolve and change as you move through life.

#### Maintain the right balance for you

Diversifying your investments across equities, bonds and cash, as well as across a number of world markets, can help lower your overall level of investment risk and make for a smoother investment ride.

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## How to survive stockmarket ups and downs

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### **Time in the market, not timing the market**

So, we have seen that stockmarket falls can be sudden, but very often markets can rise just as rapidly. With this in mind, you might think that the best course of action would be to try and anticipate the market's direction and move your investments accordingly. However, it is very difficult to try and predict stockmarket movements and trying to 'time' your investments over the short term, as the stockmarket rises and falls in unanticipated spurts, makes it easy to 'mis-time' and lose out on the gains. Market rises and falls should be viewed as part of normal stockmarket life.

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### **Fortune favours the brave**

If you are investing for the long term, the consensus is that better returns can be made by holding on to that investment for 5 to 10 years plus, rather than investing and trying to second guess the stockmarket. While there are no guarantees, history has shown that those willing to invest in equities over the long term have often enjoyed a higher return on investments.

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### **Get good advice**

However, if you do decide that the markets you're invested in fluctuate too much for your comfort, you may wish to speak to your financial adviser about developing a more suitable balance of investments to match your own attitude to risk.

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### **Important information**

The value of investments and any income from them will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested. Past performance is not a guide to future returns. Where Invesco Perpetual has expressed view and opinions, these may change. Further information on our products is available using the contact details shown. Telephone calls may be recorded.

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