Evaluate your fear of risk before taking the plunge

Dive in head first or dip your toe in the water? **Barry O'Neill**, investment director with financial planning, investment and pensions advice firm Carbon Financial Partners in Aberdeen, considers the pros and cons of both investment strategies if you have some money to play with

TREADING CAREFULLY: If you have money to invest you may be comfortable with a tentative investment approach before delving deeper

People who come into large sums of money sometimes ask us: "When is the right time to invest?"

Our answer is, invariably: "When you have money to invest". This isn't meant to be in any way glib or dismissive, or to imply that we know in which direction investment markets will move in the short-term.

In fact, it's precisely because we don't possess a crystal ball that we rely on the evidence from academic studies to inform our views.

The alternative to diving in head first with all of your planned investment capital immediately is to dip your toes in the water gently by drip-feeding your money into markets gradually over a period of time.

One potential advantage of not investing everything at once is in terms of the "regret" factor. The fear of a sharp market downturn soon after you invest can be difficult to overcome, especially if investment markets are at, or near historic highs.

Systematic implementation, sometimes referred to as pound-cost averaging, might provide some protection against regret, but a recent study suggests that deferring could mean missing out on higher returns.

Setting aside the emotional or behavioural aspects of investing, the evidence would seem to be that your returns will be greater if you invest immediately.

US fund management giant Vanguard recently published a paper suggesting this is true whether you are investing in the UK, US or Australia.

The research paper explored both strategies, and quantified the outcome of investing a lump sum into a portfolio consisting of 60% equities and 40% bonds over proper long-term periods – such as 1975 to 2015 – both immediately and by systematic implementation over 12 months.

Broadly speaking, the study of UK markets found that allocating your capital immediately, rather than drip-feeding it in each month over the course of a year, delivered a better return 70% of the time and that the increased return available by doing so was 2.03%. Additional returns were also observed in US and Australian markets, no matter whether the portfolio was invested in the 60/40 split, 100% in equities or wholly in fixed interest.

"Drip-feeding your money into markets gradually"

The underlying principle is just plain common-sense. Delaying investment into bonds and shares, which have historically had higher returns than cash, should lead to inferior results over the long term.

If you simply can't overcome the fear of investing and then suffer a sharp fall in the value of your capital in the very short-term, drip-feeding your capital should be considered but over a period no longer than a year.

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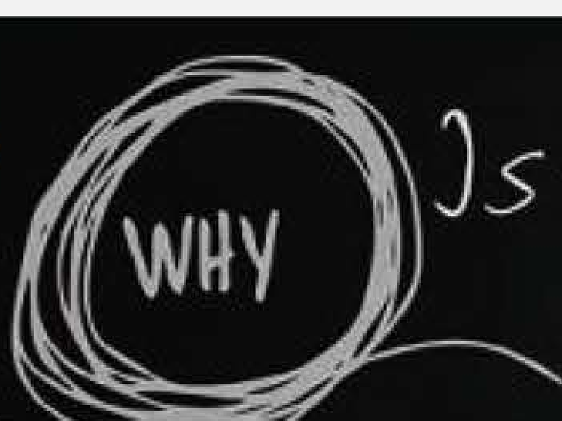

Is money important to you?

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