TalkingPoint
Schroders

25 years of the UK stockmarket: what happens after the biggest one-day falls?

Our analysis shows what happens to returns over the weeks and years that follow some of the darkest days for the stockmarket.

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It is impossible to forecast accurately what will happen to markets, and therefore the value of investments, after the result of the EU referendum on Thursday is announced.

Many newspaper column inches have been devoted to making predictions or offering theories on the impact on the pound and the FTSE 100. The uncertainty so far has caused sterling and stockmarkets to fall on the occasions when Brexit, according to the polls, appears more likely.

Investors will await the final result, which is likely to come in the early hours of Friday, with trepidation and may contemplate whether to adjust their portfolios.

History, while offering no guidance on future returns, offers food for thought on the issue of investment decisions during times of turmoil.

The data: the 20 biggest one-day stockmarket falls

We looked at the FTSE All-Share, the broadest measure of the UK stockmarket, over a decent timeframe – the past 25 years. We then filtered the data to show the 20 greatest one-day falls and looked at what happened over the days and years that followed. On the worst day, during the depths of the global financial crisis on 10 October 2008, investors lost 8.3%.

However, one year later, the index had surged and returned 26%, including income paid through dividends, to investors. The returns continued: after three years the total return was 41% and after five years it was 87%.

The figures apply to those holding investments before the market fell. Those who bought at the lows on those days would have seen even greater returns.

Most of the worst days, as Figure 1 shows, were during the severe market turbulence of 2008. Look back to 11 September 2001, the day of the terrorist attacks on the US, and the fall was 5.2%, the eighth worst in the last quarter century. The market struggled in the years after that as the technology bubble continued to deflate, but after five years, it was 44% higher.

The most notable five-year gain following one of the top 20 worst days was 126% after a 5% fall on 28 February 2009, another episode in the financial crisis and shortly before the UK bank rate was cut to 0.5% and the Bank of England's programme of quantitative easing was announced.

It's worth noting the wild volatility that often follows a big one-day stockmarket fall. For example, in the 10 days after 27 September 2008, the sixth worst day, the FTSE All-Share lost 22%. Yet still, the total return was 61% after five years.

Figure 1: Greatest one-day FTSE All-Share falls in past 25 years and subsequent returns

Date	Daily change	10 day change	1 year change	3 year change	5 year change
10/10/2008	-8.34%	-6.43%	26%	41.31%	87.23%
06/10/2008	-7.64%	-18.62%	6%	13.09%	63.40%
15/10/2008	-6.84%	-11.81%	24%	39.60%	87.82%
06/11/2008	-5.38%	-11.60%	20%	39.95%	89.25%
16/10/2008	-5.33%	1.93%	36%	51.56%	102.35%
29/09/2008	-5.32%	-21.99%	5%	18.25%	60.97%
21/01/2008	-5.27%	2.48%	-28%	17.20%	29.35%
11/09/2001	-5.21%	-9.27%	-17%	2.39%	43.75%
24/10/2008	-5.04%	4.82%	36%	55.33%	108.93%
02/03/2009	-5.04%	-1.32%	47%	76.43%	126.18%
15/07/2002	-5.02%	-5.37%	0%	40.53%	98.70%
01/12/2008	-5.00%	0.03%	31%	43.39%	98.68%

08/10/2008	-4.81%	-8.66%	18%	30.37%	74.31%
14/01/2009	-4.67%	-4.63%	33%	47.05%	96.90%
24/08/2015	-4.53%	-1.87%			
22/09/2011	-4.49%	-3.96%	16%	47.75%	
18/08/2011	-4.48%	1.24%	14%	43.41%	
22/07/2002	-4.45%	-0.95%	4%	44.31%	101.47%
30/09/2002	-4.43%	0.28%	13%	60.19%	107.35%
19/11/2008	-4.39%	-1.73%	36%	48.67%	103.59%

Source: Financial Express, Schroders , June 2016.

The benefits of staying invested: 60% return vs 5% loss

Trying to move in and out of markets, to call the top and the bottom, is exceptionally difficult. And, if you get your timing wrong, this can have a damaging effect on returns.

Consider this example. If you had invested in a basket of equities investments in global stockmarkets - the MSCI World index - between 2005 and 2015 you would have received a return of 60%.

But if you missed the 10 best days within that period then you would have lost 5%, according to Financial Express data compiled by Schroders. It’s an extreme example but demonstrates the risks of trying to time markets.

The long-term view and the wisdom of 20-year investments

The lesson from history is to keep your nerve at times of turbulence. But data also highlights the merits of long-term investing.

The timeframe of five years is usually suggested as the minimum for stockmarket investment on the basis this allows investors to experience the ups and downs of a normal market cycle; though, as ever with investment, nothing is guaranteed.

To offer an illustration, analysis by Ritholtz Wealth Management of the S&P 500 between 1927 and 2014, shows the benchmark US index recording positive returns across 88% of all five-year periods. That figure rises to 94% for 10-year periods while there has yet to be a negative return over a 20-year timeframe.

30 Minutes

Unstructured Learning Time

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