Investing in Context

Understanding drawdowns

Understanding drawdowns: staying invested through the dips

If you knew your portfolio could fall 10% or more this year, would you still invest?

History suggests many patient investors would say “yes”, because short-term drops often recover, and the long-term trend can still be positive.

Why staying invested can pay off

A **drawdown** is a drop in the value of an investment from its recent peak. These dips can happen for many reasons, economic news, political events, or shifts in investor mood. Sometimes they appear suddenly, sometimes they build gradually.

Markets don’t move in a straight line. They naturally go through ups and downs, what professionals call Volatility. This simply means prices rise and fall over time, sometimes by a little, sometimes by a lot.

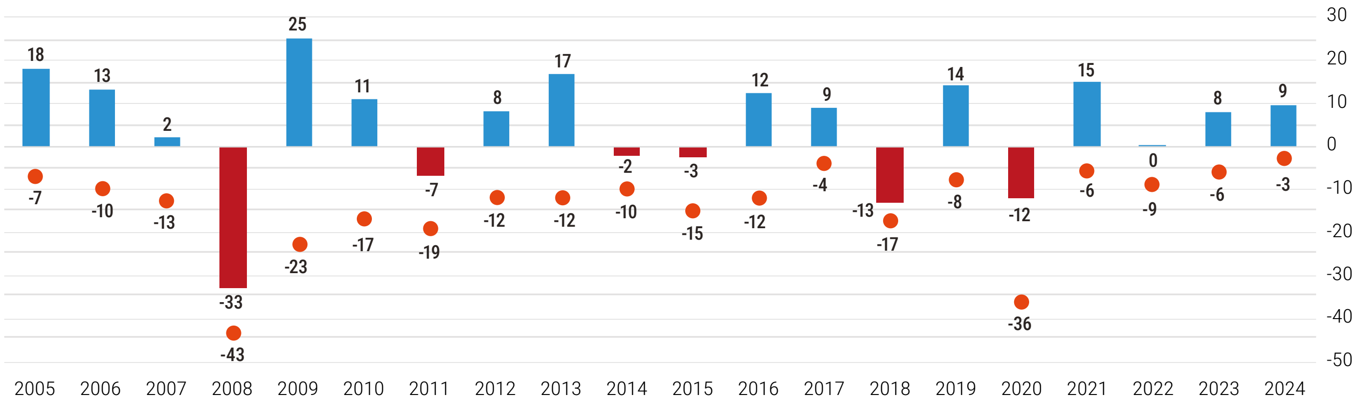
FTSE All-Share drawdowns are common even in years with positive returns

The chart tracks the UK stock market from 2005 to 2024.

- Blue bars show each year’s total performance when the market ended higher
- Red bars show years when the market ended lower
- Orange dots highlight the largest fall in value within that calendar year - the drawdown

In 13 of the 20 years, the market fell by at least 10% at some point, yet in half of those years it recovered and ended the year higher.

FTSE All-Share intra-year declines vs. calendar year returns



Source: Columbia Threadneedle Investments. Bloomberg. Total Return (including reinvested dividends), shown are price returns in GBP. Intra-year declines means the biggest drop in value from the highest to the lowest point within a single year.

Why does drawdown matter to you as an investor?

- **Drops are normal** – Even strong years often see dips of 10% or more along the way
- **Volatility is part of investing** – It is the price of long-term growth, not a sign that something is wrong with the market
- **Patience is rewarded** – Staying invested helps you participate in the recoveries that often follow sharp declines

Key points

- Market drops of 10% or more happen regularly, even in years that finish strongly
- Volatility is a normal feature of investing and part of the journey to long-term growth
- Staying invested and diversified helps you navigate market ups and downs

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