

RUTH SUNDERLAND: Most private investors have no need to panic if they follow Ruth's Golden Rules

By [Ruth Sunderland for the Daily Mail](#)

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How scared should small investors be? A top strategist at RBS is advising investors to 'sell everything' (whether we should listen to anyone from that institution is a question in itself) and even the Chancellor has warned that the UK economy is at risk from outside forces.

In reality, most private investors have no need to panic if they follow Ruth's Golden Rules: be flexible, be diversified, be brave and be careful with debt.

The last rule is the most important – in most cases our assets are far more vulnerable to poor borrowing decisions than to falling oil prices or a nasty Shanghai surprise. But more of that later.



First, flexibility: having options on timing is key here. A fall in the FTSE 100 index is only a concrete problem to investors who are forced to cash in at a low point – so it makes sense to try to ensure that will not happen.

That takes us to the second golden rule: diversify, or spread risks, around different sectors and markets. It is unlikely everything will turn toxic at once.

Next: bravery. I'm indebted to Justin Urquhart Stewart of Seven Investment Management for an analysis of how losing one's nerve can be incredibly expensive.

Pulling out of the market in a panic exposes investors to the risk of missing out on the best days for shares, which often come on the heels of the worst ones.

Over the 20 years to the end of 2014, being out of the market on the five days with the biggest gains would have reduced the value of a portfolio in the US S&P 500 by nearly 40 per cent – so staying put is usually the best strategy.

Share price falls are also an opportunity to look for good-quality stocks and markets that can be bought at a discount.

Why else might investors take the RBS comments with a pinch of salt? Well, the world economy is growing at around 3 per cent. The UK is one of the stronger performers: figures next week will show inflation remains low and employment levels are high.

As for the oil price, the horror headlines are overdone. A plunge in Brent Crude is terrible for the employees who lost their jobs at BP this week, but for most of us it is reduced prices at the pump, or a tax cut in another guise.

The real issue is not what happens at Opec or on the Shanghai stock exchange, but that too many of us disregard the fourth golden rule, and are not careful enough with our borrowing habits.

A whole generation is emerging who are inured to debt by their student loans and who have never known higher interest rates: they are in for a shock at some point. And the household savings ratio stands at just 4.4 per cent, its lowest since 1963.

That is not a problem for families with plenty of assets, but not all are in that position and the worrying aspect is that, regardless of the financial crisis, the savings culture is still lacking in this country. Meanwhile, unsecured lending is on the rise, according to Bank of England figures.

The truth is that most of us should fret less about oil prices, market falls and China's woes, and worry more about our personal debt management.

FCA succession

Expect fireworks next week when Tracey McDermott, the acting chief executive of the Financial Conduct Authority, appears in front of MPs to be grilled about the regulator's decision to drop its probe into banking culture.

McDermott, who has a reputation as a toughie, and her chairman John Griffith Jones, will be in for a bumpy ride. But perhaps the more important question is: who will take over as chief executive at the regulator after George Osborne ungallantly pre-empted McDermott's announcement that she was not in the race?

The Treasury is expected to unveil its appointee in the next few weeks and the credibility of the regulator depends on the calibre of its new leader.

This is particularly the case given Griffith Jones's conflicted position. He was a bigwig at KPMG, which audited both failed bank HBOS and the rotten-to-the-core Co-op Bank.

Possible candidates include Mark Branson, currently running the Swiss financial regulator, and Greg Medcraft, who chairs the Australian Securities and Investments Commission, along with Bank of England brainiac Andy Haldane. Insiders also mention Verena Ross, executive director at the European Securities and Markets Authority.

It is a little surprising that one of the names to emerge in recent days is Matthew Elderfield, whose career includes stints at Lloyds Banking Group, deputy governor of the Irish central bank, running the Bermuda Monetary Authority. Oh – and a spell as one of the supervisors of Northern Rock.

Elderfield may have been entirely blameless, but the FCA cannot afford to perpetuate the impression its top echelons are still staffed with individuals tarnished by the crisis.