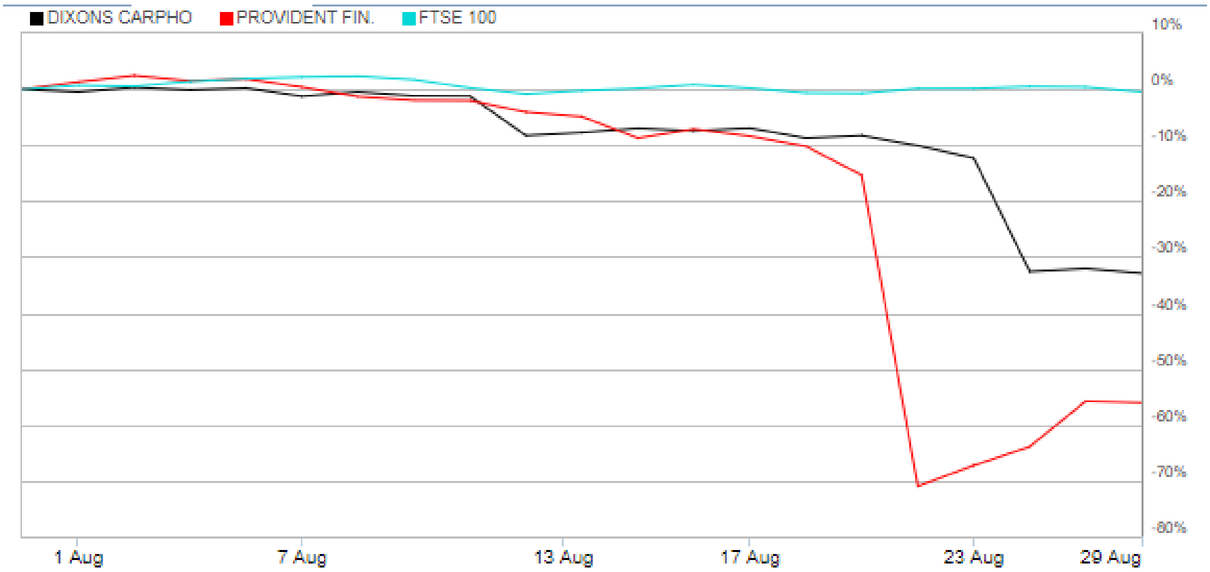
August share falls – a cautionary tale

August provided a reminder that even in seemingly quiet times, the value of individual shares can be volatile.



Source: LSE

August is traditionally a month when the turnover on stock exchanges slows down because many people are on holiday. In the jargon, trading can be "thin". That doesn't mean, however, that nothing much happens, as the graph above shows. While the FTSE 100 (top line in blue) merely wobbled, there were some major movements going on for individual companies, both within and outside the index.

The bottom line in red on the graph shows the dramatic fall of one FTSE 100 constituent, Provident Financial Group, best known for its doorstep lending business. Provident released its second profit warning in August and scrapped its dividend payment which, as the graph indicates, had not been widely expected. This month the company will be ejected from the FTSE 100 because its value has fallen so much.

The story behind the middle black line is similar. It shows the fate of Dixons Carphone, which was a member of the FTSE 100 until demotion in March of this year. Dixons Carphone, the High Street electronics retailer, revised down its profit forecast, bemoaning the reluctance of smartphone owners to update their handsets as regularly as they once did. The announcement was again off the radar, with the inevitable result on the share price.

Broaden the spread

The performance of these two well-known companies serves as a useful reminder of the potential dangers in holding a handful of shares, perhaps acquired via an inheritance or employer share schemes. Whereas a broad holding of shares (the FTSE 100 being a useful example here) spreads your risk, concentrated holdings can have the opposite effect. You may be happy to accept the potential rollercoaster ride, but if you are not or are just unsure about the risks in your current holdings, talk to us about bringing diversification into your investment portfolio.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.