THE BENEFITS OF LONG-TERM INVESTING

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Financial Planning & Wealth Management

WISE INVESTORS KNOW THAT INVESTING IS A LONG-TERM COMMITMENT. HISTORICALLY, INVESTORS WHO HAVE BEEN ABLE AND WILLING TO RIDE OUT THE PERIODS OF DECLINE IN THE MARKETS HAVE SEEN THEIR INVESTMENTS RECOVER.

Investing with a long-term outlook and with long-term goals is the best way to reduce the impact of stock market fluctuations and see out periods of volatility.

Taking the example of the IA UK All Companies sector average as representative of UK equities, the graph below shows that short-term volatility is a characteristic of investing; but over the long term the trend is a rising one.

Source: FE Analytics. Total return based on an initial investment of £10,000 over the period 01/03/1997 to 28/02/2017.
All asset classes are represented by their equivalent Investment Association (IA) sector.

- **INVESTING FOR THE LONG TERM** - an investor with £10,000 in March 1997 could have seen their investment more than treble when investing in UK equities*.
- **PREDICTING WHEN THE STOCK MARKET WILL RISE AND FALL IS ALMOST IMPOSSIBLE** - investing for the long-term could see investors through periods of market volatility.
- **SHORT-TERM, REACTIONARY INVESTING CAN BE DEVASTATING** - trying to time the market is a fool's game and can be disastrous for investors.

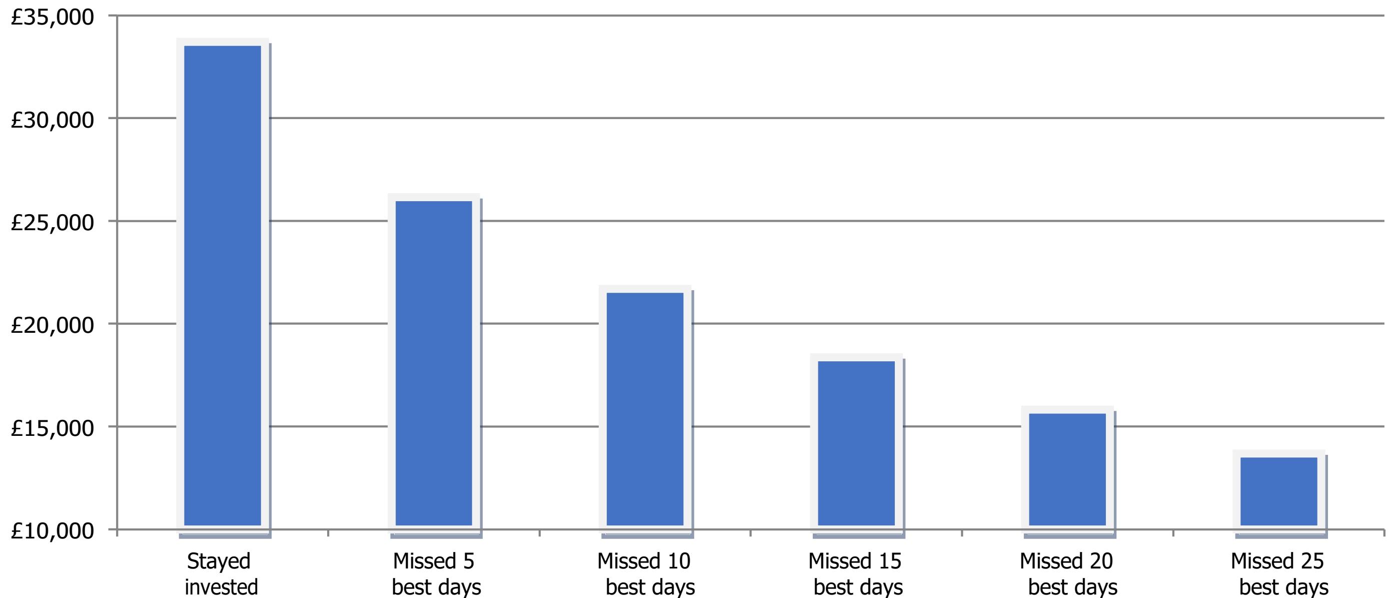
* The information provided is for illustrative purposes only and doesn't represent the past performance of any particular investment. It is not possible to invest directly into an IA sector.

MISSING
THE BEST DAYS

WHEN MARKETS ARE VOLATILE, IT IS OFTEN TEMPTING TO EXIT THE MARKET OR SWITCH TO CASH IN AN ATTEMPT TO REDUCE FURTHER EXPECTED LOSSES.

However, it is impossible to time these movements correctly as no-one has a crystal ball to predict future movement, so being out of the market for just a few days can have a devastating effect on returns.

Taking the example of the IA UK All Companies sector average as representative of UK equities, the chart below shows the effects of missing the best days of market performance.



Source: FE Analytics. Total return based on an initial investment of £10,000 over the period 01/03/1997 to 28/02/2017.

Over the last 20 years, using the same example £10,000 initial investment as previously, an investor who stayed in the markets throughout the period could have a potential return of £33,713. This is a return of 237.13% compared to a return of 36.80% for an investor who missed the best 25 days*.

	Total Return
Stayed invested	237.13%
Missed 5 best days	161.51%
Missed 10 best days	117.01%
Missed 15 best days	83.71%
Missed 20 best days	58.11%
Missed 25 best days	36.80%

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THE IMPORTANCE OF

DIVERSIFICATION

Risk is a necessary and constant feature of investing; shares fall, economic conditions fluctuate, companies can occasionally go bankrupt. Indeed, the returns that assets generate are typically there to compensate investors for risk. There are many different asset classes available to invest in, each possessing different risk characteristics. The chart below shows the annual returns of various asset classes over the last 10 years. The diversified portfolio is provided to illustrate the benefit, in general terms, of a diversified portfolio of assets. By spreading your investment across different asset types, you may be able to avoid exposing your portfolio to undue risk.

Performance (%)	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
best	Global Fixed Interest 11.61	Emerging Markets 73.27	UK Equities 19.40	UK Fixed Interest 6.90	Europe ex UK 18.45	UK Equities 19.43	North America 21.23	Global Fixed Interest 3.63	Emerging Markets 42.04	Asia Pac ex Japan 36.88
	Cash 3.53	Asia Pac ex Japan 66.78	Europe ex UK 14.22	Global Fixed Interest 6.34	North America 14.60	Europe ex UK 16.03	China 17.70	Property 1.90	China 41.06	Emerging Markets 36.48
	UK Fixed Interest -11.14	China 63.08	Global Equities 14.03	North America 4.69	Asia Pac ex Japan 14.12	North America 14.65	Asia Pac ex Japan 16.48	Japan Equities 1.08	Asia Pac ex Japan 38.87	China 33.62
	Japan Equities -16.27	UK Equities 43.64	North America 13.67	Asia Pac ex Japan 1.75	UK Equities 13.92	Global Equities 9.34	Japan Equities 15.49	North America 0.42	North America 36.02	Japan Equities 32.97
	North America -21.78	Europe ex UK 42.53	Asia Pac ex Japan 13.54	Emerging Markets 1.47	Property 12.14	Japan Equities 5.78	Property 14.79	Cash 0.13	Japan Equities 35.24	North America 30.05
	Diversified Portfolio -26.16	Diversified Portfolio 41.69	Emerging Markets 12.59	UK Equities 1.29	Global Equities 11.89	UK Fixed Interest 2.92	Emerging Markets 12.76	Europe ex UK -1.39	Global Equities 31.23	Global Equities 26.15
	China -27.57	Global Equities 40.61	Property 12.49	Cash 0.23	Diversified Portfolio 11.06	Diversified Portfolio 2.81	Global Equities 11.79	UK Fixed Interest -2.51	Diversified Portfolio 27.16	Diversified Portfolio 23.49
	Global Equities -29.05	North America 39.22	Japan Equities 10.99	Diversified Portfolio -0.28	Japan Equities 9.63	Property 2.37	Diversified Portfolio 11.43	Global Equities -3.72	Europe ex UK 22.98	Global Fixed Interest 18.58
	Asia Pac ex Japan -33.96	Property 32.13	Diversified Portfolio 10.67	Global Equities -0.41	UK Fixed Interest 9.58	Cash 0.03	UK Fixed Interest 9.42	Diversified Portfolio -4.61	UK Equities 18.93	Europe ex UK 18.40
	Europe ex UK -33.98	Japan Equities 26.65	China 6.92	Property -1.13	China 8.97	China -3.34	Global Fixed Interest 4.07	UK Equities -5.22	Global Fixed Interest 12.56	UK Fixed Interest 12.22
	UK Equities -34.13	UK Fixed Interest 22.43	UK Fixed Interest 6.13	China -4.65	Global Fixed Interest 8.79	Global Fixed Interest -5.64	UK Equities 3.76	Asia Pac ex Japan -10.05	UK Fixed Interest 11.04	Property 12.14
	Property -38.19	Global Fixed Interest 17.79	Global Fixed Interest 2.64	Japan Equities -6.85	Emerging Markets 5.94	Asia Pac ex Japan -8.96	Europe ex UK 3.59	China -11.22	Property 10.96	UK Equities 11.74
Worst	Emerging Markets -40.08	Cash 0.30	Cash 0.17	Europe ex UK -7.05	Cash 0.23	Emerging Markets -14.28	Cash 0.05	Emerging Markets -14.36	Cash 0.13	Cash 0.15

Past performance is not a guide to the future. The value of units may fall as well as rise. Source: FE Analytics. Total return based on an initial investment of £10,000 over the period 01/03/1997 to 28/02/2017. All asset classes are represented by their equivalent Investment Association (IA) sector. The diversified portfolio is an equal split of the above IA sectors and has been provided to illustrate the benefit, in general terms, of a diversified portfolio of assets. It is not actual portfolio or fund. The information provided is for illustrative purposes only and is not meant to represent the past or future performance of any particular investment or category. It is not possible to invest directly into an IA sector.

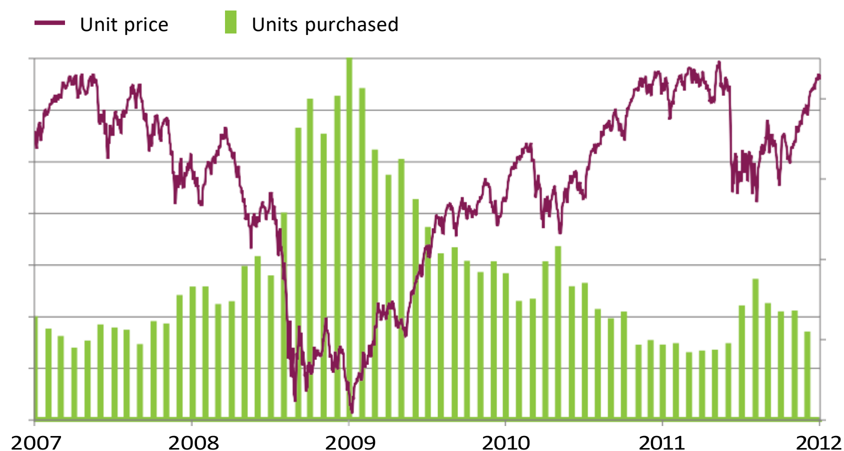
UNIT-COST **AVERAGING**

FINANCIAL MARKETS ARE UNPREDICTABLE AND TRYING TO TIME THE MARKET IS ALMOST IMPOSSIBLE.

An alternative approach is to phase an investment into the market. This drip feeds the investment and means you could benefit from the effect of unit-cost averaging.

Unit-cost averaging means that more units are bought when prices are low, and fewer are purchased when prices are high, ensuring you purchase units at an average price throughout the investment period. The averaging effect means that the risk of paying the highest price is removed.

Taking the example of the IA UK All Companies sector average as representative of UK equities, the chart below demonstrates how unit-cost averaging could have worked on an investment during the last period of extended market volatility (2007-2012).



THE PROS AND CONS

The chart shows more units were purchased when the price was low, and fewer units were purchased when the price was high. In volatile markets, unit-cost averaging means that you can build an investment portfolio that is likely to benefit when a recovery happens, without the worry of trying to work out when the bottom of the market may occur. However, the potential downside is that you could lose out on the best of the growth in a rising market.

On a £10,000 investment between 2007 and 2012 the benefits of the unit-cost averaging effect are clear. Compared with a single initial investment of £10,000, an investor would have been £1,128 better off when investing monthly due to the effects of unit cost averaging:

Source for both charts: FE Analytics. Total return based on an initial investment of £10,000 over the period 01/03/2007 to 28/02/2012. The information provided is for illustrative purposes only. It is not possible to invest directly into an IA sector.

Past performance is not a guide to the future. Your investments may fall as well as rise in value and you may not get back what you put in.

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