Investments

Practices for long-term investment success

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This article provides practical tips for investors, who can improve their chances of achieving their financial objectives by focusing on long-term goals, diversifying investments and staying calm during market fluctuations. Whether you're experienced or new to investing, these practices will help you make informed decisions and stay on track despite short-term market noise.

"Forget the short run, only the long run matters"

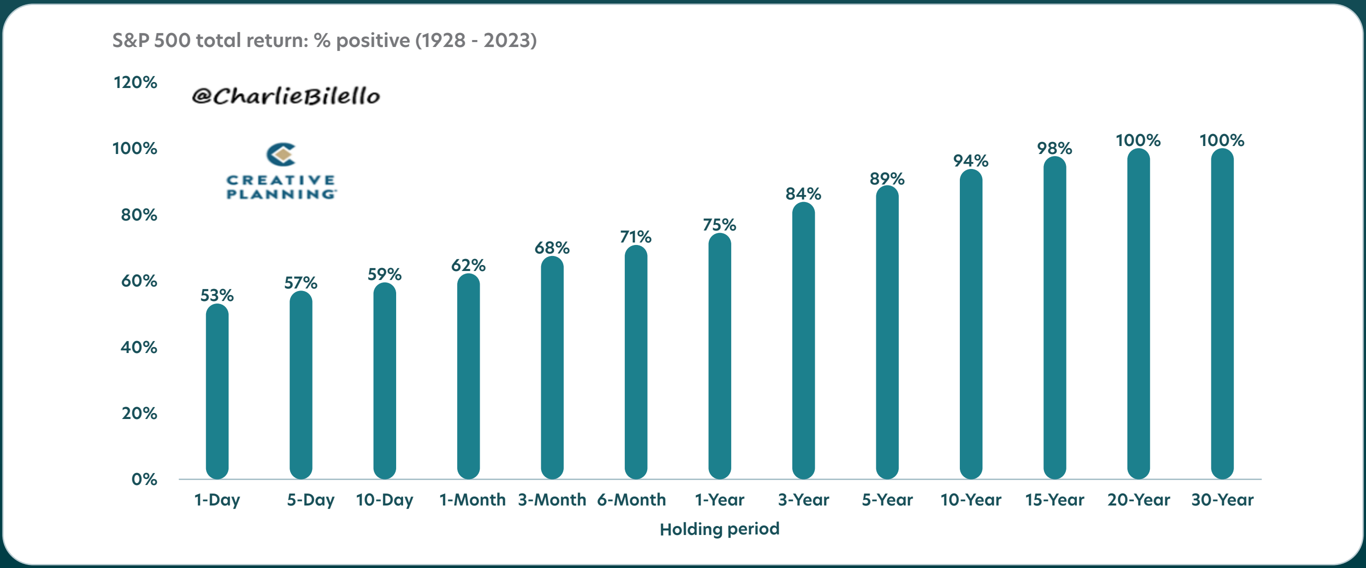
– Howard Marks

Most of our clients have long-term objectives, such as saving for retirement, funding education, or building wealth for future needs. Consequently, the investment strategies to achieve these objectives are also long-term.

Long-term investment strategies often include growth assets like equities as a core component. Equities provide good returns above inflation over time but can be volatile in the short term due to market unpredictability. It is important to remember that equity prices can fluctuate more than the actual underlying value of companies, especially in the short term due to investor sentiment and emotions. Short-term market news can cause frequent price changes, but these do not necessarily reflect companies' long-term prospects. Focusing on short-term financial news is unhelpful for long-term success.

A long-term investor should manage or reduce the flood of regular financial market news and avoid making hasty decisions based on it - perhaps something easier said than done.

The chart below shows that the equity market tends to be positive over longer periods, with a near-perfect record of wealth accumulation for holding periods over 15 years. Staying disciplined and maintaining a long-term view is key to investment success.



Source: Charlie Bilello

"The best defence against the unknown is a diversified portfolio"
— David Kelly

The risk of loss is a constant feature of investing. It refers to the possibility that the value of an investment will decrease, leading to a financial loss. This risk can rarely be avoided in the pursuit of long-term returns and is the price investors pay for the chance to earn strong returns. However, this risk can be managed through diversification.

A diversified portfolio includes various uncorrelated return streams consisting of different asset classes (such as cash, bonds, property, equity and alternative investments) across various industries, geographies, investment strategies, and even asset managers. Such a portfolio is resilient across different market cycles because it is unlikely that all these exposures will move in the same direction, at the same rate and at the same time in response to a specific market event. You want your investments to move independently of each other under various market conditions. In other words, what you are looking for is a complementary spread of investments that gives you the opportunity to earn returns from one investment, when another is performing poorly.

A diversified portfolio also helps combat behavioural issues like the fear of missing out (FOMO). While it may not outperform every time, it is also unlikely to underperform every time, providing a balanced approach that smooths out fluctuations in investment values and helps investors stay committed to their investment strategy.

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Global Equity	SA Bonds	SA Equity	Global Bonds	Global Equity	Global Equity	SA Listed Property	SA Inflation	Global Equity	SA Listed Property
Global Bonds	SA Listed Property	SA Listed Property	SA Bonds	SA Equity	Global Bonds	Global Equity	SA Cash	Balanced	Global Equity
SA Listed Property	SA Cash	Balanced	SA Cash	Balanced	SA Bonds	SA Equity	SA Bonds	Global Bonds	SA Bonds
Balanced	SA Inflation	SA Bonds	Global Equity	SA Bonds	SA Equity	Balanced	SA Equity	SA Listed Property	Balanced
SA Cash	Balanced	Global Equity	SA Inflation	SA Cash	Balanced	SA Bonds	Balanced	SA Bonds	SA Equity
SA Equity	SA Equity	SA Cash	Balanced	SA Inflation	SA Cash	SA Inflation	SA Listed Property	SA Equity	SA Cash
SA Inflation	Global Equity	SA Inflation	SA Equity	Global Bonds	SA Inflation	SA Cash	Global Equities	SA Cash	SA Inflation
SA Bonds	Global Bonds	Global Bonds	SA Listed Property	SA Listed Property	SA Listed Property	Global Bonds	Global Bonds	SA Inflation	Global Bonds

Source: Alexander Forbes Investments

"You get recessions, you have stock market declines. If you don't understand that's going to happen, then you're not ready, you won't do well in the markets"
— Peter Lynch

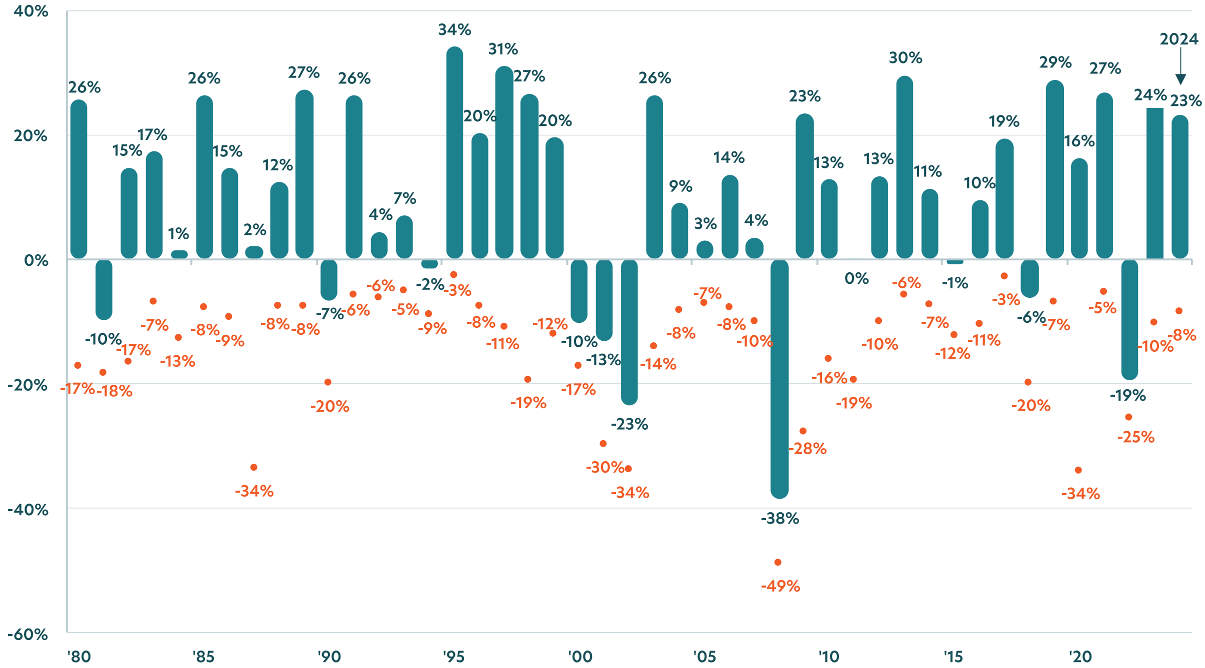
Since the 2008/2009 Global Financial Crisis (GFC), equity markets have delivered strong gains, with some pauses during events like the 2019 Covid-19 pandemic and 2022 global interest rate hikes. After such gains, investors may become accustomed to positive equity market returns. Some have gone as far as to describe the general direction of equity market indices as always going 'up and to the right'. While history supports the realisation of positive inflation-beating returns delivered by equities, this is not necessarily always 'risk-free'.

Global financial markets are as interesting and unpredictable as life and every year brings with it a non-zero probability of slower economic activity, the occasional recessions, geopolitical and political uncertainty, pandemics and other potential shocks. As such, market corrections (declines of 10% or more) and bear markets (declines exceeding 20%) occur from time to time. Despite these drawdowns, long-term equity market gains remain attractive.

The chart below from JP Morgan shows that in every calendar year since 1980, the bellwether S&P 500 has always experienced a drawdown (intra-year decline) even in years that delivered strong positive returns overall. On average, the S&P 500 experienced a 14% intra-year decline – including in positive years, these being three out of every four years.

S&P intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.1%, annual returns were positive in 34 of 45 years



Source: FactSet, Standard & Poor's, JP Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2024, over which time period the average annual return was 10.6%.
Guide to the Markets - U.S. data are as of December 31, 2024.

Investors should be mentally prepared for market corrections and maintain a long-term mindset. These sell-offs, especially in the short term, often reflect prevailing sentiment rather than the core aspects of the overall performance and health of companies in the equity market. Understanding how to stay calm and make informed decisions during market drawdowns is key to long-term success.

What investors should consider

It's often said that investing is simple but not easy and the more time one spends in the investment space, the more one appreciates this adage. For investors, making sound investment decisions is crucial for the long-term financial well-being of their investments. Here are key considerations to ensure successful investment outcomes:

Maintain a long-term perspective

Investors should align their investment strategies with their own long-term objectives. Financial markets are constantly in motion and can be volatile, especially in the short term. It is important to resist the urge to make knee-jerk decisions based on short-term market fluctuations. Staying invested and maintaining a long-term view is advantageous for achieving your goals.

Diversify to manage uncertainty

Diversification is essential in the face of market uncertainty. A well-diversified portfolio should include a mix of investments spread across various industries, geographies, investment strategies and asset managers. This approach ensures exposure to a diverse set of opportunities, benefitting from gains in well-performing asset classes while mitigating losses from underperforming ones. Robust investment strategies should be designed to achieve their objectives across various scenarios, providing stability and resilience for your investment.

Avoid frequent adjustments based on short-term information

Constantly adjusting an investment strategy based on short-term financial market information can be detrimental. While short-term market news may be interesting, it rarely conveys useful information about the long-term prospects of investments. Investors should focus on staying invested in a well-designed strategy for a sufficient period to realise the rewards. This disciplined approach helps in maintaining the stability and growth of your investments over time.

Before you make any changes to your savings and investments, make sure that you have relevant information, understand your options and have asked for help from your financial adviser if you need it.

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