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FACTSHEET

Long-term investing

How to fund a fulfilling life beyond our working years

Healthier lifestyles and medical advances mean that many of us can expect to enjoy longer lifespans than previous generations. However, this creates a significant challenge both for society as a whole and for us all as individuals – how to fund a fulfilling life beyond our working years.

The projections from the Organisation for Economic Co-operation and Development (OECD) suggest that the average man will live to 83.5 by 2052, while a woman can expect to live to 87.2 years old[1].

The UK General Election brought further uncertainty to markets which are still adjusting to an increasingly uncertain global political landscape. Investors should plan to invest for at least ten years. How can investors protect themselves and keep their long-term goals on track?

CASH ISN'T ALWAYS KING

Some investors think of cash as a safe haven in volatile times, or even as a source of income. But the ongoing era of ultra-low interest rates has depressed the return available on cash to near zero, leaving cash savings vulnerable to erosion by inflation over time. With interest rates expected to remain low, investors should be sure an allocation to cash does not undermine their long-term investment objectives.

Cash left on the sidelines earns very little over the long run. Investors who have parked their cash on deposit are likely to have missed out on the impressive performance that would have come with staying invested over the long term.

COMPOUNDING AND GROWTH

One of the advantages associated with long-term investing is the potential for compounding. When your investments produce earnings, those earnings can be reinvested and can earn even more. The more time your money stays invested, the greater the opportunity for compounding and growth. Keep in mind that while compounding can have a significant long-term impact overall, there may be periods where your money won't grow.

While there are no guarantees, the value of compounded investment earnings can turn out to be far greater over many years than your contributions alone. The difference between reinvesting and not reinvesting the income from your investments over the long term can be significant.

THE LESSON IS: DON'T PANIC

Volatility in financial markets is normal, and investors should be prepared for the ups and downs of investing rather than reacting emotionally when the going gets tough. The lesson is: don't panic. More often than not, a stock market pullback is an opportunity, not a reason to sell.

Market timing can be a dangerous habit. Pullbacks are hard to predict, and strong returns often follow the worst returns. Some investors may think they can outsmart the market – or they let emotions like fear and greed push them into investment decisions they later regret. Even missing a handful of days in the market can have a major effect on an investor's total returns. ■

IT'S GOOD TO TALK

While markets can always have a bad day, week, month or even a bad year, history suggests investors are much less likely to suffer losses over longer periods. To discuss how much you'd like to invest, how you feel about risk and what your objectives are, please contact us.

Source data:

[1] OECD, Life expectancy links – the quiet revolution in pension policy, 2007.