Why long-term investing matters

Investing for the long term gives your money the greatest chance of growing in value. But this means keeping calm during periods of significant stock market volatility – and remembering that, as history shows, markets typically recover.

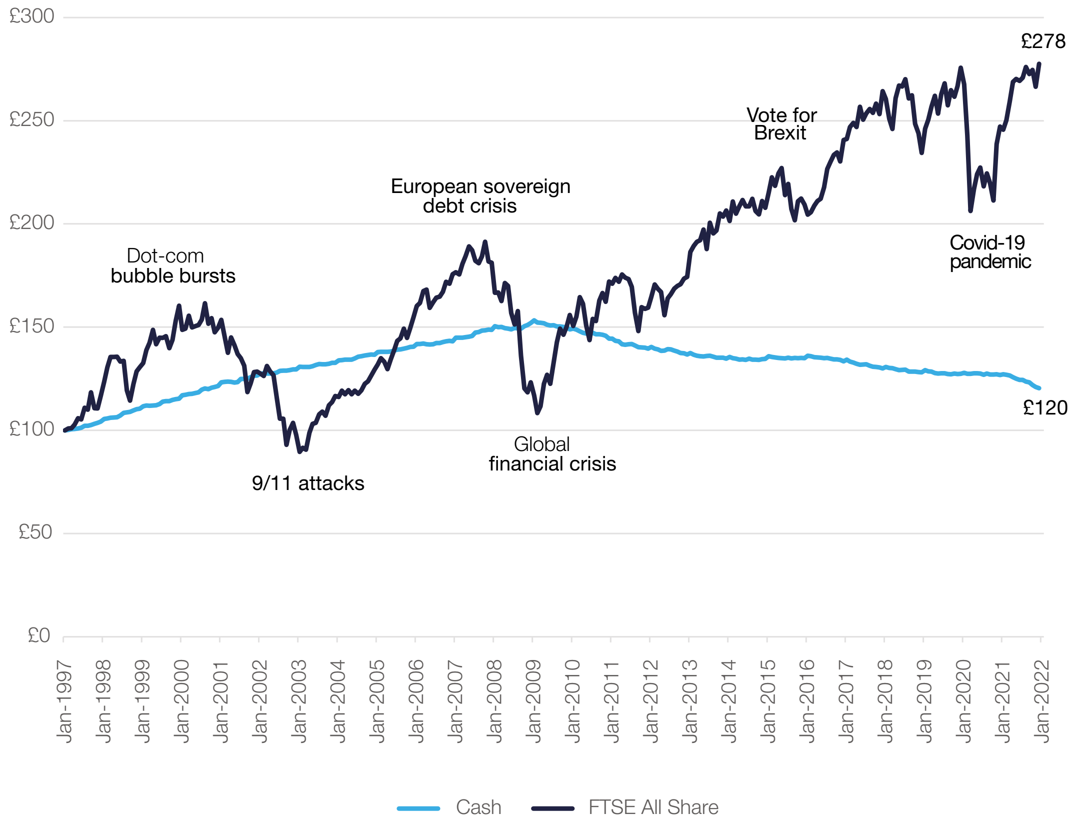
Here are four reasons why investing over the long term is the wisest strategy.

1. Time in the market matters

As the old investment adage goes, it's time in the market – not timing the market – which is key to returns. By delaying, or cashing in your investments, you risk missing out on the best days in the market.

The global economy has endured plenty of adversity over the decades, and yet the stock market has continued to climb, given time. The chart below shows that if you invested £100 in the FTSE All-Share in January 1997, it would have increased in value to £278 by January 2022. This is on a 'total real return' basis (combining share price changes and dividend income, and adjusting for inflation) and before fees. Conversely, if you had put £100 in a cash savings account[1], it would have grown to just £131 after adjusting for inflation.

A financial adviser can act as a sounding board during periods of stock market volatility, and help you remain focused on your long-term financial goals.



Source: Brewin Dolphin / Refinitiv Datastream

[1] Based on Bank of England base rates

Neither simulated nor actual past performance are reliable indicators of future performance. Performance is quoted before charges which will reduce illustrated performance.

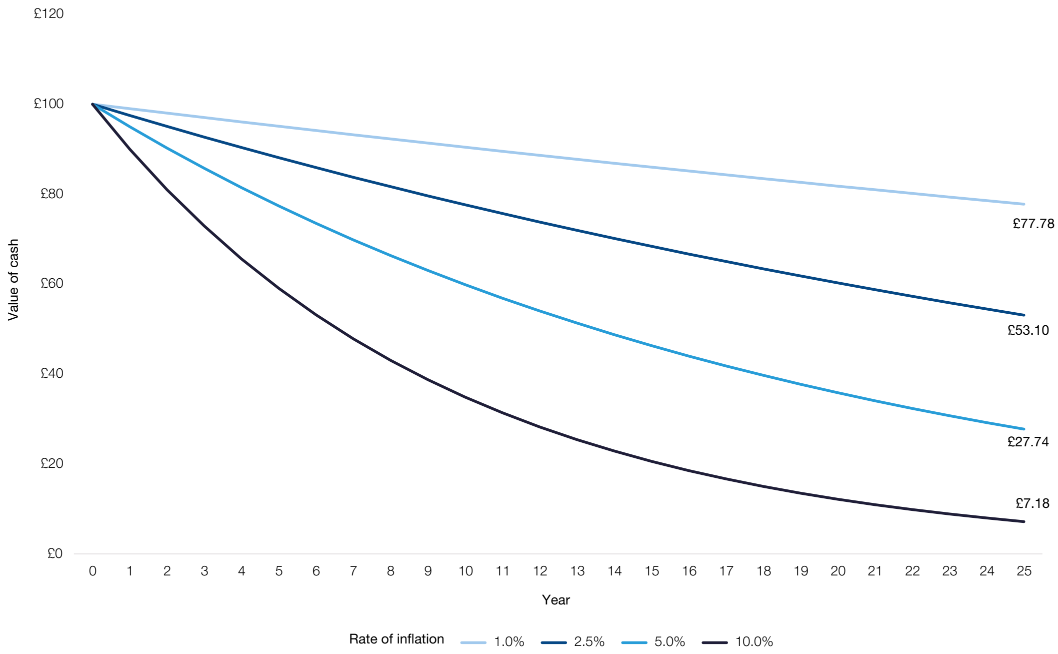
2. Compounding matters

Compounding is extremely powerful when it comes to investing. Albert Einstein described it as the eighth wonder of the world. It is, simply, earning returns on your returns.

For example, somebody earning a nominal return of 5% net of fees in year one would see their investments grow by a compounded return of 63% after ten years. After 20 years, this rises to 165%, and over 25 years it balloons to 239%. This demonstrates the cumulative effects that compounding has on capital.

3. Beating inflation matters

Inflation can erode the real value of savings over time. If we assume for simplicity's sake that your money was earning no interest at all, then an inflation rate of 2.5% would reduce the real value of £100 to £53.10 after 25 years, while an inflation rate of 5% would reduce it to just £27.74.



Source: Brewin Dolphin

For illustrative purposes only.

If you are prepared to accept the risk that comes with investing, and have time on your side, you give your money the greatest chance of growing and beating inflation over the long term.

4. Risk matters

Spreading your money across different asset classes across the globe, including equities, bonds and cash, can help to reduce the impact of volatility on your investments' overall performance. This is because different assets tend to be negatively correlated, which means they will not usually react in the same way to sudden economic shocks.

A financial adviser can help you build a diversified portfolio of investments which suits your individual needs and risk appetite.

The value of investments, and any income from them, can fall and you may get back less than you invested.

Neither simulated nor actual past performance are reliable indicators of future performance. Performance is quoted before charges which will reduce illustrated performance. Investment values may increase or decrease as a result of currency fluctuations.

Information is provided only as an example and is not a recommendation to pursue a particular strategy.

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