Pennymatters
THE MODERN APPROACH TO FINANCIAL ADVICE

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Why remaining invested supports long-term growth

Unlocking the potential of your investments and securing your financial future

When it comes to growing your finances, few decisions are as crucial to long-term success as remaining invested. The temptation to move to cash during volatile periods can be strong, but financial history and market principles often favour those who keep their positions. Staying invested isn't just about patience; it's about unlocking the potential of your investments, capitalising on market trends and safeguarding your financial future.

Understanding why staying invested is so effective begins with examining the main reasons behind its success. From growth through compounding to controlling emotional biases, let's explore the key benefits and practical strategies that underpin this fundamental principle.

LONG-TERM GROWTH POTENTIAL BREAKS BARRIERS

One of the strongest reasons to stay invested is the opportunity to benefit from long-term growth. Historically, investment assets such as stocks and shares have consistently beaten inflation, delivering strong returns over long periods. By maintaining your investments, you also benefit from the power of compound interest. This powerful mechanism boosts the value of your initial investment over time, leading to exponential growth that cash savings accounts simply cannot match.

Consider the example of investing £10,000 in a broad stock market index that averages a 7% annual growth rate. Over 20 years, compound interest could increase that amount to more than £38,000. Compare this with leaving the same £10,000 in cash, where inflation and limited returns might erode its purchasing power.

TIMING THE MARKET VS. TIME IN THE MARKET

Attempts at 'timing the market' frequently lead investors along an uncertain route. Shifting investments into cash during dips and re-entering when markets ascend results in exposure to misjudgements. For instance, selling during a market downturn could mean missing the subsequent recovery and the financial gains that often follow. Similarly, staying in cash during upward trends might forfeit valuable opportunities.

The adage 'time in the market, not timing the market' captures this perfectly. Those who remain steady through market volatility are more likely to benefit from long-term trends and protect themselves against the emotional rollercoaster that often accompanies investing.

DIVERSIFICATION SHIELDS AGAINST RISK

Diversification is another essential part of the stay-invested approach. Spreading investments across different assets, sectors and geographical regions can help protect against market-specific risks. For example, profits from technology stocks might offset downturns in the property industry during a certain economic period, leading to a more balanced overall portfolio.

For long-term investors, maintaining a diversified portfolio can help stabilise performance. The balance between growth-oriented stocks and safer assets, such as bonds, provides more stable returns even during challenging financial periods.

CASH SAFETY COMES AT A COST

Although cash feels secure, especially during economic downturns, it has notable disadvantages. Even with relatively high interest rates, cash savings often experience a 'real return' shortfall. When inflation is taken into account, cash diminishes

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purchasing power instead of maintaining or increasing it over time.

For example, a current savings account with a 3% annual return will lose real value if inflation exceeds that rate. This highlights the importance of weighing the opportunity cost of holding cash against potential returns from investments.

EMOTIONAL BIASES AND THE POWER OF RATIONALITY

Investors often encounter emotional biases such as fear during market crashes and greed in bull markets. These emotions can lead to poor decisions, like selling too early or investing recklessly. Staying invested, however, helps minimise these behaviours. Adopting a careful, long-term strategy based on informed goals is a more reliable approach.

For example, during the 2008 financial crisis, those who stuck to their investment plans and remained invested recovered losses and enjoyed significant market gains in the years that followed. This demonstrates the resilience of staying the course.

TAX EFFICIENCY AND STRATEGIC GAINS

Beyond market outcomes, continuing to invest can provide potential tax advantages. Selling assets might trigger capital gains taxes, particularly where gains are above the £3,000 annual Capital Gains Tax (CGT) allowance, at which point there is a tax charge at 18% or 24%, basic rate band and above, respectively.

Additionally, certain assets, such as UK government bonds, benefit from preferential tax treatment, enabling investors to maximise their returns while complying with tax regulations.

RESILIENCE OF FINANCIAL MARKETS

History consistently demonstrates that financial markets can recover from even the harshest downturns. From the Great Depression to the dot-com bubble and the 2008 financial crisis, markets have shown a proven ability for rebounding and growth. By remaining invested, you increase the chance to benefit from these recoveries and position yourself for long-term gains.

Investors who endured the short-term volatility caused by COVID-19's market impact in 2020 saw notable rebounds in 2021. Staying invested proved beneficial, emphasising the importance of a disciplined, long-term strategy. ■

NEED GUIDANCE TO SECURE YOUR SUCCESS FOR TOMORROW?

Careful planning is essential. Regularly reviewing your portfolio ensures it aligns with your goals and can be adjusted as needed. Making informed decisions today can secure your success tomorrow. To discuss your future plans, please contact us.

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