Time in is everything: the benefits of staying invested

Time in the market

Smooth the ride. Markets will always fluctuate but the longer you stay invested, the less affected you may be by short-term volatility.

Don't miss the recovery. In many instances when investment markets recover they tend to bounce back quickly. Withdrawing from the market means you risk missing out on the opportunity for the best gains.

Long-term rewards. Market volatility may lead to short-term downturns in your portfolio. Historically, markets have more than recovered these losses over the long term.

There's never a bad time to invest

If there's one thing we humans are good at, it's finding excuses to put things off. Whether it's exercising, going to the dentist, or vacuuming behind the sofa, the slightest distraction can be all it takes to derail our best-laid plans. Likewise how easily we can be talked out of investing.

Volatile markets, negative returns and political instability for example all seem like perfectly good reasons to keep our money under the mattress. But history shows just how resilient investment markets are and avoiding them at any time may mean missing out on the best days they have to offer.

Make sure you're there for the rebound

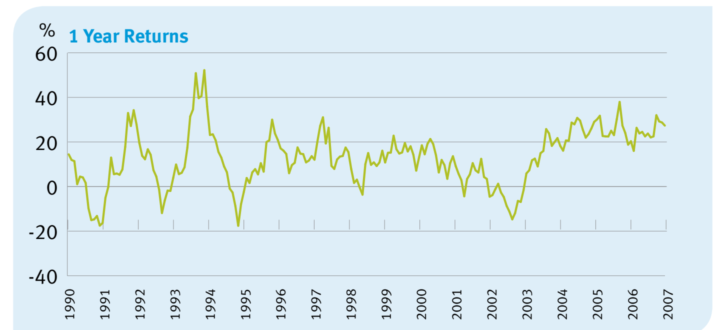
Looking back over the last 50 years every decade has experienced a sharemarket crisis or two. In the 1960s it was the Kennedy assassination and the ongoing Vietnam war. The 70s saw the Watergate scandal then there was the 1987 Wall Street crash in the 80s. The Gulf War and the Asian economic crisis followed in the 90s and in 2001 there was the September 11 terrorist attacks.

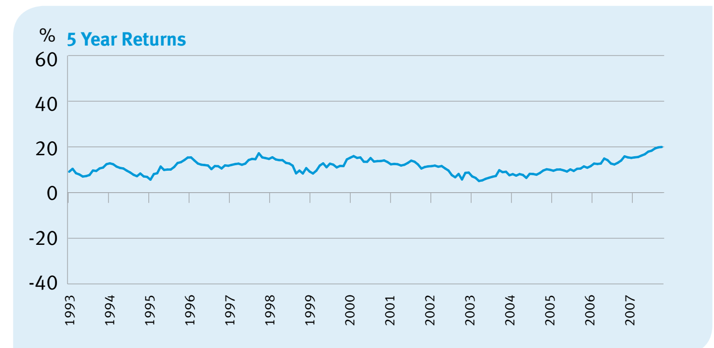
The latest volatility surrounding the credit crunch in the US is yet another example.

Many of these events were triggered in the US and usually created a flow-on affect to the Australian and other global sharemarkets. However global markets have not only recovered from each of these setbacks, they have continued to produce solid growth over the long term, rewarding those investors patient enough to ride out the downturns.

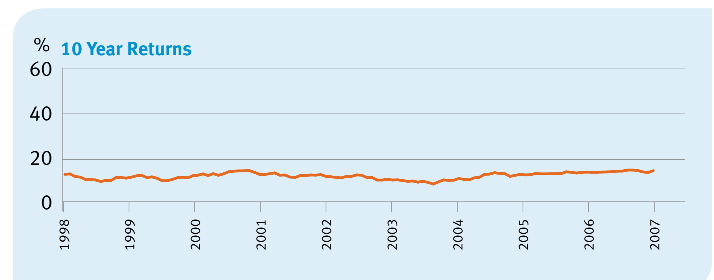
Time in the market reduces the change of a negative outcome

This diagram shows you the average 1 year, 5 year and 10 year returns from Australian sharemarkets over the last 15 years.





Investing for the long term has provided strong positive returns.



*Data: All Ords Accum Index/S&P/ASX Accum. Index, simple average of monthly returns. Source: Iress. Timeframe: 31/1/1988-31/5/2008.

Looking at the 1 year performance of Australian shares, 16% of all periods experienced negative returns. So even in this relatively short timeframe, the majority of 1 year returns were positive.

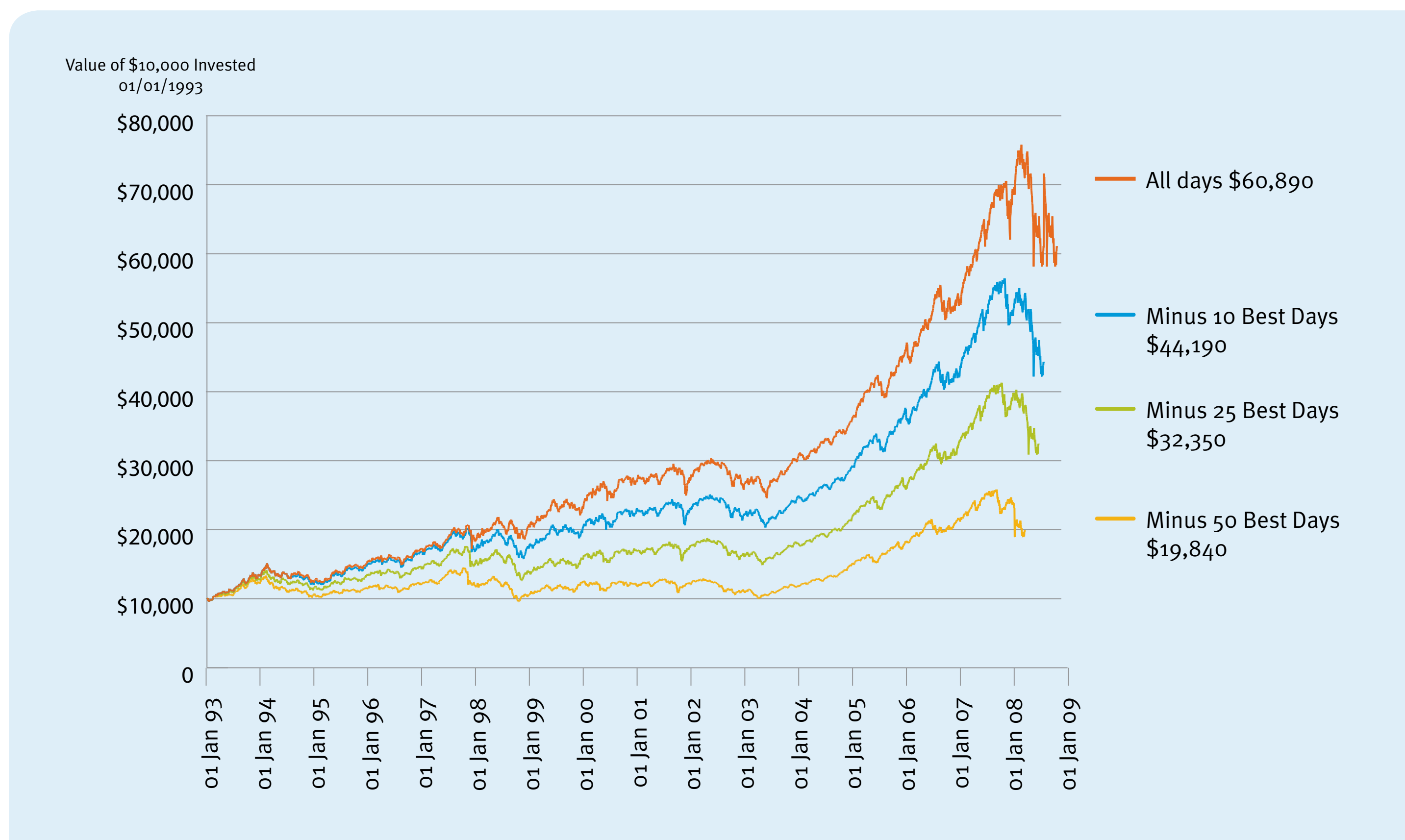
Extend the timeframe out to 5 or 10 years, and there were no periods of negative returns in the Australian sharemarket. Over this time if you stayed invested you would have achieved strong returns.

The importance of investing for the long term

Choosing when to invest, or 'timing' the market, is so difficult to predict. Also, getting it wrong, even by a day or two, can impact your long-term savings.

The following graph shows the value of a $10,000 investment in the Australian sharemarket over the last 15 years. The top line is your investment balance if you stayed invested in the market for the entire time. The other lines assume you were out of the market for the top 10, top 25, and top 50 best trading days – the difference makes an incredible impact.

Time in versus timing - how missing the best trading days can significantly affect returns



*Data: All Ordinaries Accumulation Index 01/01/1993 to 31/03/2008

In summary

Choosing when to invest, or 'timing' the market, is difficult to predict. History shows that investors who stick with a well-planned investment strategy for the long-term tend to come out ahead. If investing for the long term, your strategy aims to achieve long term objectives and therefore it's important that this is where your focus lies.

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