MAGELLAN ASSET MANAGEMENT

MAGELLAN EXPLAINS: Long-Term Investing

A long-term investment typically means that an investor will hold an investment, such as securities, bonds or exchange-traded funds for at least five years or more on average.

Whilst there is no firm time frame of what is considered long-term investing, it requires continuous investment, regardless of market volatility and fluctuating price levels of assets.

FOUR TIPS FOR LONG-TERM INVESTING

Investors trying to achieve their investment goals, should consider a long-term investment strategy to help give their portfolio the opportunity to grow and compound over time. Below are four tips when thinking about long-term investing.

1 KNOW YOUR GOAL, RISK TOLERANCE AND TIME HORIZON

Investment goals are different for everyone, from building wealth for retirement, funding education or buying a dream home. Knowing your investment goals will help an investor determine how much time is needed and how much risk is required to build wealth. These three important factors are fundamental in a long-term investment strategy.

Risk tolerance is the amount of risk that an investor is willing to accept in order to achieve their investment goals. Below is an example of three risk tolerance profiles and how they could impact investment decision making.

- **Conservative:** Willing to sacrifice/forego the potential for higher long term returns in order to protect capital
- **Moderate:** Prepared to accept a moderate level of risk to achieve long term returns
- **Aggressive:** Willing to tolerate risk and volatility to maximise investment returns

Generally, if an investor has a longer time horizon to accumulate wealth they can tolerate more risk, compared to an investor nearing or in retirement. Investors will have different time horizons based on their individual investment goals.

2 DIVERSIFY YOUR INVESTMENTS

Investment markets are unpredictable and can be volatile. Spreading investments across a range of asset classes, geographic regions and industry sectors, means the potential negative impact of a single asset's decline is mitigated by the performance of other assets. Including uncorrelated assets in a portfolio, could mean you are less likely to suffer a big loss across your portfolio over the long term.

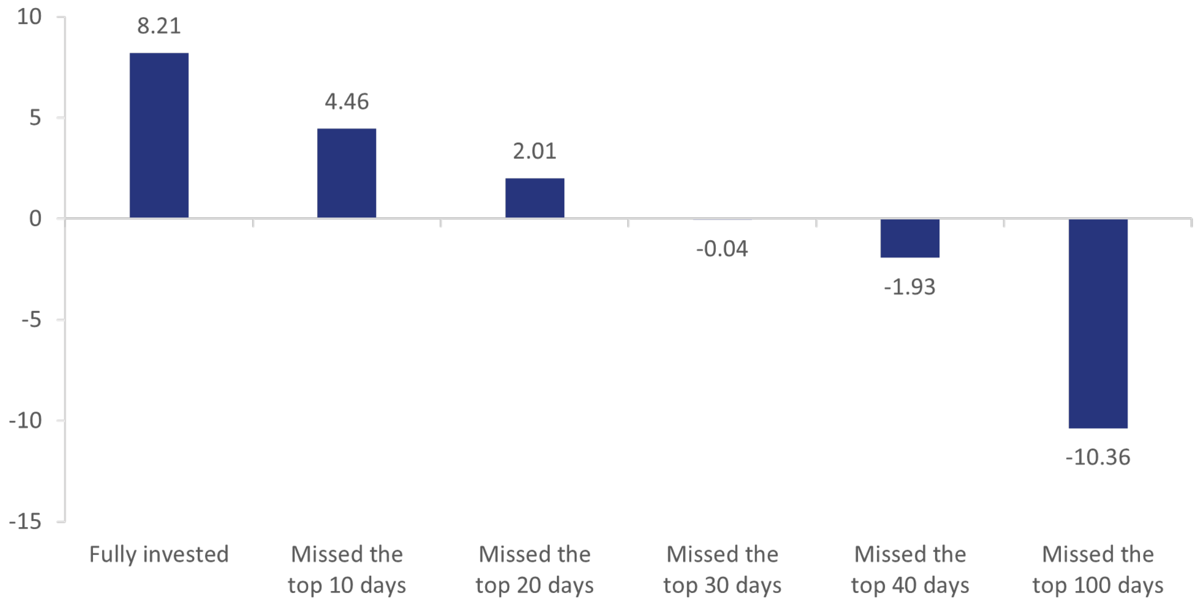
3 STAY THE COURSE

When markets take a downward trend, emotions can take over and it can be hard for investors to watch the ups and downs in their investment portfolio. Some investors, due to fear of asset value falling further, consider straying off the path of a chosen strategy and sell assets to cushion market volatility. However, making quick emotional decisions in investing can be risky and could potentially have negative impacts on a portfolio. Long-term investing requires investors to stay the course of an investment strategy even during turbulent markets.

It can also be tempting to time the markets. Trying to pick tomorrow's winners against yesterday's winners may seem simple but there is clear evidence that timing the market is difficult. For example, the buy low, sell high strategy relies on knowing when a share will go up or down, this is extremely complex to do consistently. Long-term investing requires staying invested and not dipping in and out of the market to chase tomorrows winners.

As shown in the chart below, If an investor sells out of the market too early or is too late buying back in the market, they may miss future growth. Missing just a few of the best days in the market can have a negative impact on the value of an investment.

Market returns: S&P 500 Index from 31 Dec '89 - 31 Dec '09



Source Legg Mason

4 LET THE EXPERTS DO THE WORK

Investing can be hard, and it requires time and in-depth knowledge of investing and the markets. Investing in a managed fund can give investors access to an actively managed portfolio, where the investment expert, like a fund manager will be responsible for ensuring the investment strategy is implemented, diversified and stays on track.

It's important to regularly review an investment strategy, even when committed to a long-term plan. Rebalancing a portfolio periodically and adjusting the weighting of stocks to ensure the original goal of the investment, is key to staying on track.

Magellan believes in investing in high-quality companies over the long-term.

At Magellan, we believe that successful investing is about finding, and owning for the long term, companies that can generate excess returns on capital for years to come. We scour the world for the best companies that we believe have a sustainable competitive advantage that will compound returns for our investors over the long term.

For more information, please visit **www.magellangroup.com.au** or contact your financial adviser.

info@magellangroup.com.au   +61 2 9235 4888 or 1800 6243 5526   Speak with your Financial Adviser