Disciplined approach to wealth management

Machel & Associates

Wealth Advisory Group

Monday Morning Minute with Mike Machel

Time: The Investor's Great Ally

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AIt has been said that "Time is the exponent that does the heavy lifting. The common denominator of almost all fortunes isn't returns; it's endurance and longevity." As we look ahead to a new year, don't overlook the impact of compounding and time on investing success.

In investing, compounded returns can have a profound impact on portfolio values, but the potential outcomes are often overlooked. When given the choice between $50,000 per year for 30 years or a penny that doubles in value each year for 30 years, many would choose the first option. This is because it is easy for us to think linearly – $50,000 times 30 years would yield $1.5 million. However, the effects of compounding aren't as intuitive: a doubling penny would result in a whopping $10.7 million over the same period of time.

From an investing perspective, the significant outcomes from compounded growth may often be difficult to achieve in practice. One of the challenges is that compounding only yields impressive results over longer periods of time. This is because initial gains appear small at the onset and moderate in the middle – substantial outcomes are only realized in the latter part of the journey. Consider the doubling penny. After a full decade, it would have grown to just $10.24.

Even after fifteen years, it would be worth only $327.68. With the other option, you would have banked $750,000 by this time. Yet, remarkably, after 27 years, the doubling penny would exceed the $1 million mark; after 30 years, it would be worth $10.7 million. Of course, We recognize that the doubling penny's annual rate of return of 100 percent is unrealistic in investing. This example is meant to highlight the profound impact that compounding can have over time – let's not forget this started with just a penny.

Adding to the challenge is that investor behavior can disrupt the path toward achieving these outcomes. During heightened uncertainty, periods of downward market volatility can act to derail investment focus, prompting some investors to react. We all know the oft-counterproductive behaviors, such as trying to sell before a market downturn or, worse still, abandoning stocks during a downturn, which deprives the investor of the ability to eventually recover. These appear to be intuitive actions in the face of uncertainty; in many ways, the compounding journey often demands seemingly counter-intuitive behavior.

However, it's worth a reminder: the world has always been uncertain. Today is no exception. Many are struggling with a higher cost of living and elevated interest rates. Global economies are highly indebted, economic conditions are softening and we're likely to see lagging effects of the rate hikes, among other concerns. Yet, adverse macroeconomic events have always been part of the investing journey: recessions, financial crises, inflation, stagflation – even wars – history has included all of these terrible things. While they can derail the markets for temporary periods, it is investor reactions to these events that can derail compounding.

As advisors, we remain focused on managing portfolios to navigate the challenges that come with the changing times. As investors, don't overlook the importance of a commitment to the longer term: Let time in the markets be one of your keys to success. As we begin another year, we would like to thank you for entrusting us with your wealth management. Wishing you and your loved one's health, happiness, and prosperity for 2024.

Have a great week.

Warmest Regards,

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