If you aren't investing for the long term, you aren't investing

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The world is a scary place if you live day-by-day. We are bombarded by negative news – most recent studies estimate that just 10% of daily news stories are 'good'[1]. And those studies don't count Twitter as news...

There's a lot of messy psychological stuff at work here. Our brains are designed to engage *more* with negative news than positive news, so media outlets keep it coming, swamping our optimism with every click and swipe we make.

The US presidential election is a good example of this – there's no good measure of election hysteria, but it feels like we would have hit all-time highs over the past week. As we've written **previously,** our investment approach in the face of such hysteria is *"to stay informed and engaged, while not getting overexcited about any single outcome."* That was even more difficult advice to follow than usual!

And on Monday we saw some encouraging news from Pfizer and BioNTech about one of their vaccine candidates for COVID-19. Again, we want to apply the same rule – keeping informed, but not focussing too much on one positive or negative outcome.

We've got a few techniques which help us take the long-term view – going for a long walk without your phone is top of the list, or getting lost in a history book or science fiction novel. Living in the short term is just too stressful, and genuinely reduces our ability to make the sensible long-term choices we need to make.

True long-term trends

We can end up missing the *true* long-term trends if we just focus on the short term. One of our research partners, GaveKal, had a great example of this the other day. They asked their readers what the most important event of 2007 was for financial markets.

Most of their readers are investors of some kind, so in one form or another, the answer was "the Global Financial Crisis". That seems fair enough. We're arguably still dealing with some of the fallout.

Surely historians of the future will look back and pick that out as the key event of the year?

Perhaps not. Although it was 13 years ago, that is still a short-term way of thinking. Financial crises come around quite often (almost annually, if you're from Argentina). They leave their scars, but tend not to change the world. No, the truly important event of 2007 was when Steve Jobs and Apple launched the iPhone, completely changing the way that we interact with the world around us.

Staying diversified and staying the course

Of course, in 2007, no one realised that the iPhone was as important as it has proved to be. Apple shares fell along with everything else, down 50% by 2009, along with the US market.

Since then the world has moved on from the financial crisis – the US market has quadrupled since its 2009 lows. But Apple shares are up 36 times. Long-term trends trump short-term crises.

Our investment process is designed to capture these kind of long-term trends via our strategic asset allocation, while mitigating the potential damage from short-term crises with careful use of our tactical abilities. This can include tilting the asset allocation towards particular opportunities, or partnering with active fund managers.

Strategic asset allocation

Our strategic asset allocation has two key benefits. First, it keeps us *invested at all times*. Over time, financial markets reflect long-term trends in the world. Apple moved from being less than 1% of the US equity market in 2009 to nearly 7% today. That's why, more than anything else, staying invested in times of crisis is important, as it lets you capture these global trends. So having a plan for staying invested is essential.

Secondly, our strategic asset allocation keeps us *diversified*. It's difficult to identify where and what the genuine long-term trends in the world are going to be.

In 1989, the world was obsessed with the fall of the Berlin Wall, and the end of the Cold War. But in the mountains of Switzerland, Tim Berners-Lee had just created the World Wide Web. Which mattered more?

Sometimes even a century later, it's tough to know what's important: 1928 saw the discovery of penicillin and the launch of world's first television station. I'm not sure I know which has been more *important* to the development of society. So we need to make sure we're invested in a little bit of everything, regardless of what seems most important at the time. A broadly diversified asset allocation keeps lots of fingers in lots of pies.

Tactical adjustments and active managers

We use our tactical flexibility to adjust our long-term allocation to short-term events – think of it as trimming the sails, rather than changing course completely.

This allows us to take some profits when we see an opportunity, or look to deploy some dry powder into undervalued opportunities. For example this year, with COVID-19, we added to positions in high yield bonds and investment grade bonds through March and April, and then rotated these into some of the less expensive equity markets and sectors through the summer. If the recent positive news around vaccines continues, these positions might *also* perform strongly in the short term – which is helpful, but not the reason we entered.

Tactical flexibility also lets us look for attractive entry points to some longer-term themes. So with healthcare, which we think will be a huge theme for the next decade, short-term noise around the US election gave us a chance to build a long-term position in healthcare companies at excellent prices.

And our long-term approach extends to our investments with active managers. Where we use active managers, we want people who invest along the same time horizons as we do – capturing trends and themes that shape decades, rather than worrying about beating their benchmark in any given year. Sometimes that means they'll be holding out-of-favour positions, but if they're sticking to their guns and their process, we'll stick by them.

What will be the defining event of 2020 for financial markets?

Right now, it's hard to look past COVID-19. But in ten years' time, it may well be that people are forgetting about the coronavirus. What are some other contenders? It could be that 2020 is remembered as the year in which interest rates finally bottomed. Or it could be the year when car manufacturers all pivoted towards electric. Or it could be the year where environmental, social and governance (ESG) investing became mainstream. It can be tough to tell in the moment.

So we rely on our investment process. Remaining invested, across lots of different sectors and regions, while looking to mitigate the damage in sharp drawdowns, so that our clients have an easier time thinking about the long term. It worked in 2008, and through Brexit, and has done well so far through COVID-19. We think it will keep on working for the next few decades too.

[1]G. Lengauer, F. Esser, R. Berganza, Negativity in political news: A review of concepts, operationalizations and key findings. Journalism 13, 179–202 (2012)

Any reference to specific instruments within this article does not constitute an investment recommendation.