The power of regular investing

Introduction

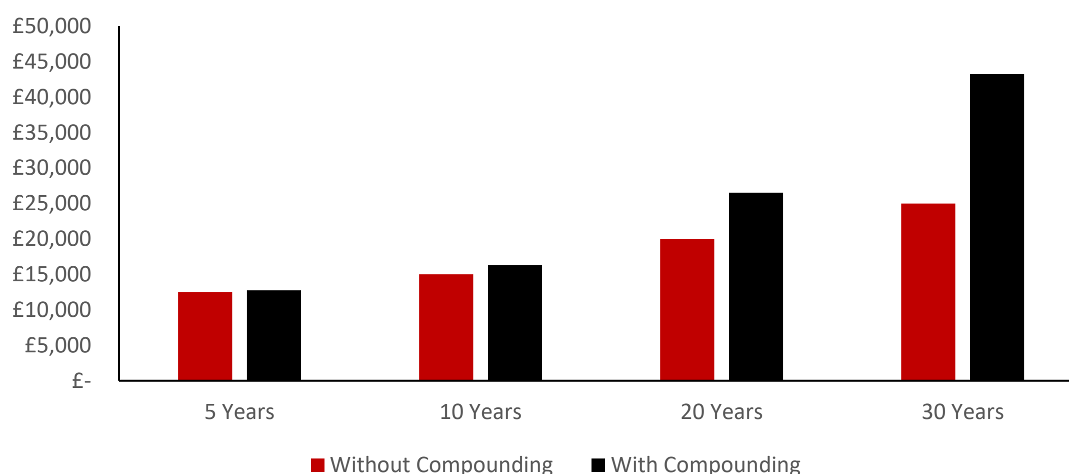
One of the questions investors ask most frequently is ‘when should I invest my money?’. Fortunately, this is a question with a simple, straightforward answer – start investing now.

For those with regular disposable income, the best solution is to start investing some of that excess income every month. Not only is regular investing convenient, it has many advantages which help to improve the investment outcome.

1) Your investments benefit from what’s known as compound interest

As you reinvest the returns from your investment, the original investment can continue to grow along with the money the investment has generated – giving a beneficial snowball effect.

Even if the amount you put in each month seems small, it all adds up. And the more frequently you put the money in the faster this process happens. Albert Einstein reportedly described compound interest as the eighth wonder of the world. Judging from the below you can see why. The chart shows how the snowball effect turns a £10,000 investment into £43,219 over 30 years.



Source: HSBC Global Asset Management. For illustrative purposes only.

2) It can help your portfolio to bounce back faster after dips in the market

If markets go into decline, then by investing at regular intervals more stocks or shares are purchased when their prices are low, and fewer are purchased when prices are high (i.e. the average cost of your investments is lower). Therefore, the percentage decline in the value of your investment is also lower. Conversely, if you had invested in irregular, large lumps, and the market went into decline, your entire holding could have been purchased at a high price. Therefore, the percentage decline in portfolio value would be significantly larger.

3) You're able to pick up bargains by regularly investing in declining markets

When prices start to fall many people panic and either pull their money out or refuse to enter the market altogether. In reality, this is often the best time to buy in, as fear has caused prices to become artificially low. Adding to your investment at these times will mean your returns during the next rally will be even larger. As effective as it is, many find it difficult to use this investment strategy due to the fact that it requires removing emotion from the situation. However, if you're investing regularly then you benefit from this effect automatically.

Investing £12,000 at the start of 2018, versus investing £1,000 at the end of each month

Investing During 2018 Market Downturn		
	Lump Sum	Periodic
Market	FTSE 100	FTSE 100
Market Return	-8.70%	-8.70%
Total Investment	£12,000	£12,000
Frequency of Investment	Annually	Monthly
End Investment Value	£10,951	£12,121

Past performance is not a guarantee of future performance.
Source: Bloomberg, HSBC Global Asset Management.

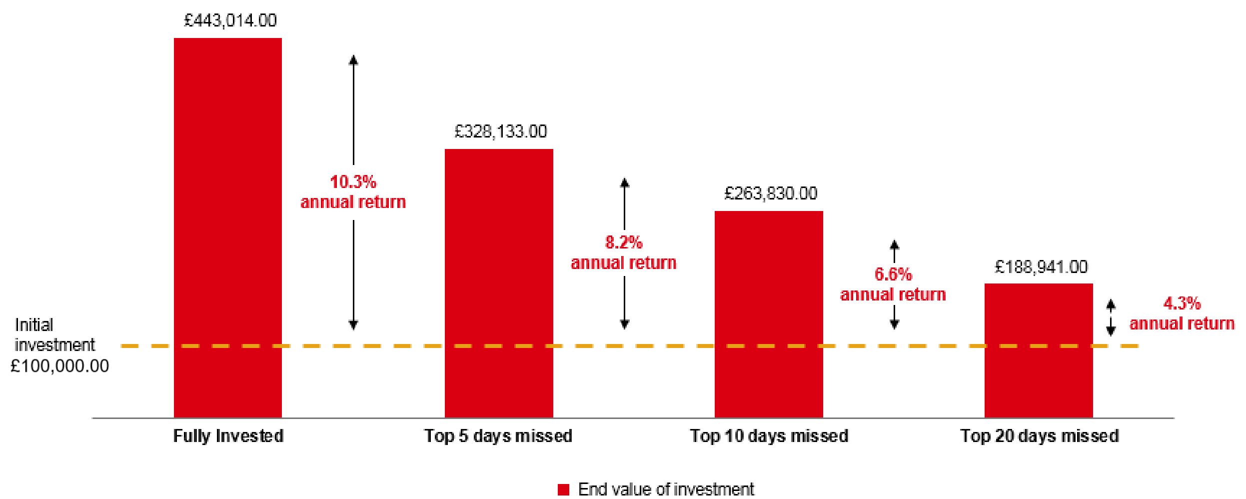
4) It avoids the temptation of trying to 'time' the market, which often results in missed opportunities.

Some will spend months agonising about when they should be putting money into the market – wanting to find the perfect entry point. In reality it is incredibly difficult to perfectly time your investment, and only possible to pinpoint ideal entry points after the fact. It's for this reason that even professional investors with large sums to invest often drip their investments into markets over time, and it makes sense for you to do the same.

With regular investing means you remain fully invested in the market as opposed to buying and selling to try and time the market. For an indication of the impact to your portfolio of missing the market's best days.

£100,000 invested from January 2005 to January 2020 in developed markets equities

- Missing the top 20 days over 15 years reduced the end investment value from £443,014 to £188,941



Past performance is not a guarantee of future performance.

Source: HSBC Global Asset Management, Bloomberg, MSCI Daily Total Return Gross World Index.

Summary:

It's also worth highlighting that investing regularly helps to build good habits and keep you committed to your investment strategy over the long-term. The longer you invest for, the greater the benefits are. Regular monthly contributions, regardless of size, will build up over time. Ideally the amount you invest should be a fixed portion of your income, so as your income fluctuates over your life you can continue to build your nest egg.

Of course, if you've already saved a large lump sum, then it makes sense to invest that money sooner rather than later. Over long periods of time, markets rise, and therefore the longer an investment is in the markets the more likely it is to see a positive return. However, this lump sum has typically accumulated over a period of time from disposable income. Therefore, complimenting a lump sum investment with monthly contributions can help to cover all your bases.

Regular investing is a powerful and disciplined way to build wealth, and the sooner you start the better. With time on your side, and regular investing, you can ride out the short-term volatility of investment markets, and avoid the pitfalls of trying to time the market.

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