

7 RULES FOR INVESTING OVER THE LONG TERM



INVESTING FOR YOUR RETIREMENT

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A COMPREHENSIVE GUIDE FOR RETIREMENT PLANNING

Retirement planning is an essential aspect of personal finance, especially in a world where people are living longer than ever before. Effective investing for retirement is not just about saving; it's about making informed decisions that align with your long-term financial goals.

This guide explores seven crucial rules for long-term investing, each designed to help you navigate the complexities of the financial markets and secure a comfortable retirement.





1 PLAN TO LIVE LONGER

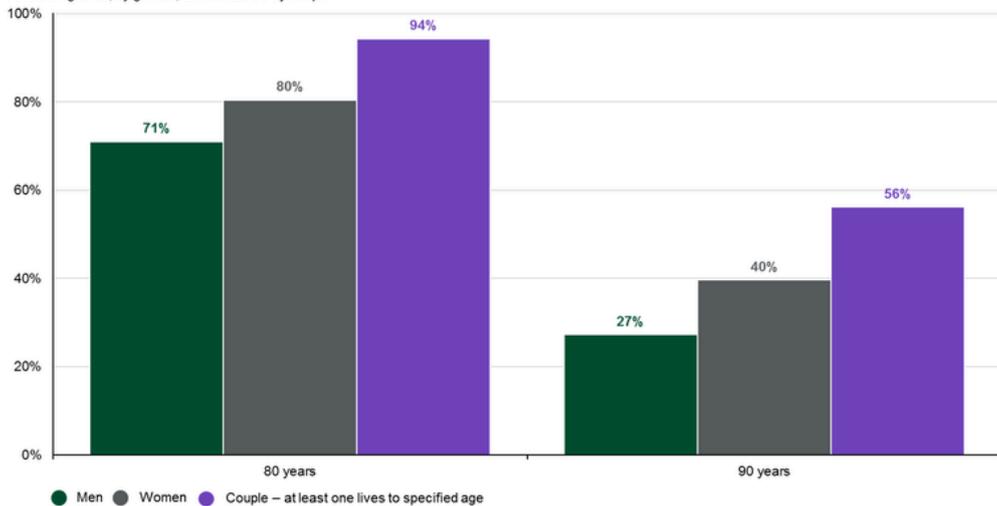
We will live to be 90

Advances in modern medicine and healthier lifestyles means people are living longer lives. There is a 56% chance that at least one of a 65 year-old couple will reach the age of 90.

We haven't saved enough!

Studies indicate that many individuals do not feel sufficiently prepared financially for retirement. The number of years people expect their savings to last is not lining up with the number of years they plan to spend in retirement.

Probability of reaching ages 80 and 90
Persons aged 65, by gender, and combined by couple



Source: ABS Life Tables, J.P. Morgan Asset Management. Guide to the Markets – Australia. Data as of 31 December 2024.

RULE 1

Know you are living longer and start investing accordingly by saving more, investing with discipline and have a plan for the future.

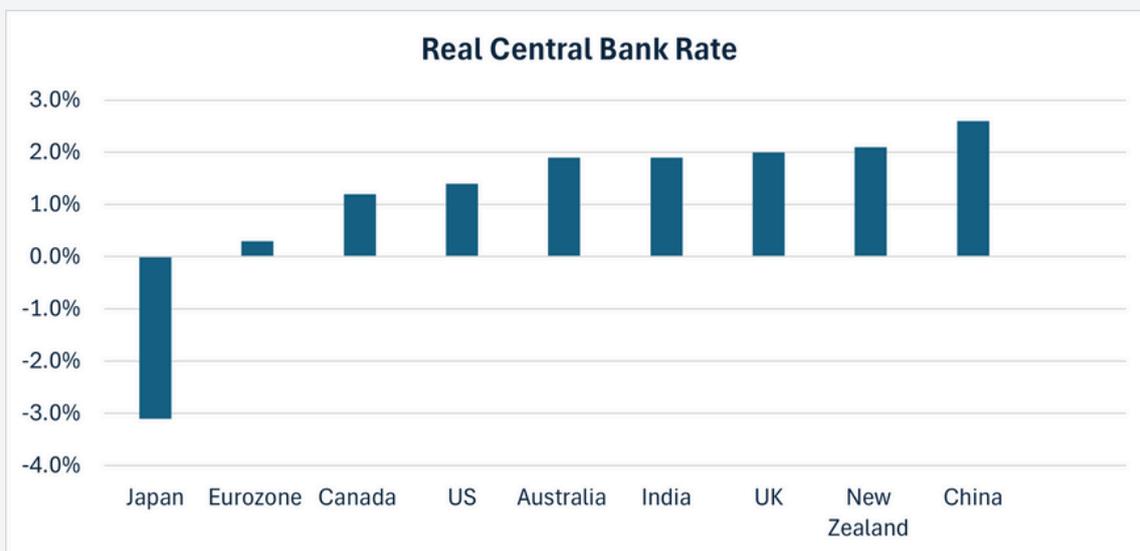
2 INFLATION, THE SILENT ASSASSIN

Cash ain't what it used to be

Cash may feel safe, but inflation steadily erodes its value, leading to negative real returns over time. Even in high-interest-rate environments, inflation often outpaces savings growth, reducing purchasing power. Holding excessive cash during inflationary periods is a silent wealth destroyer.

Too much of a 'good thing'

Holding excess Cash means losing value to inflation instead of benefiting from long term investment growth. Many savers have missed out as cash reserves have surged globally. Australian households have deposits totalling \$1.54 trillion and with a real interest rate of 1.9%, income will not keep pace with spending.



Source: Charlie Bilello, Data as of 14/02/2025, Global Central Bank Policy Rates

RULE 2

Keep cash low unless real returns justify it, as inflation erodes wealth and staying invested is the best defense.

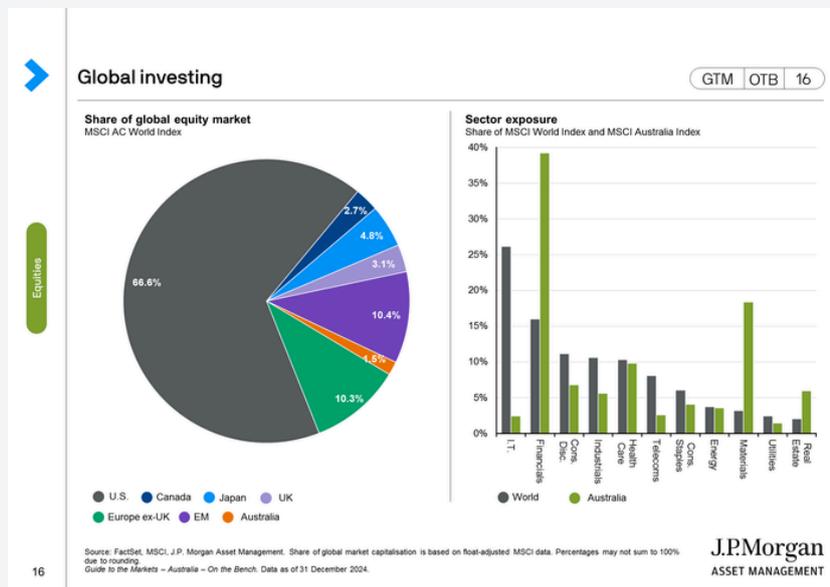
3 STICK TO THE PLAN

Be open to global diversification

Australia only represents a small fraction of the global economy, accounting for around 1.7% of the global equity market. Most Australian investors have a strong home-country bias, only having a small percentage of their portfolio invested offshore.

Banking bias

The concentration of the Australian stock market in banks and resources means investors have a disproportionately high level of exposure to these sectors. Compared to global opportunities, we miss out on segments such as IT and healthcare. That is not to mention the over exposure to the housing market that the dominance of the banks has created



RULE 3

You need to be aware of biases. Employ a disciplined plan to minimise the effect of over concentration and home bias.

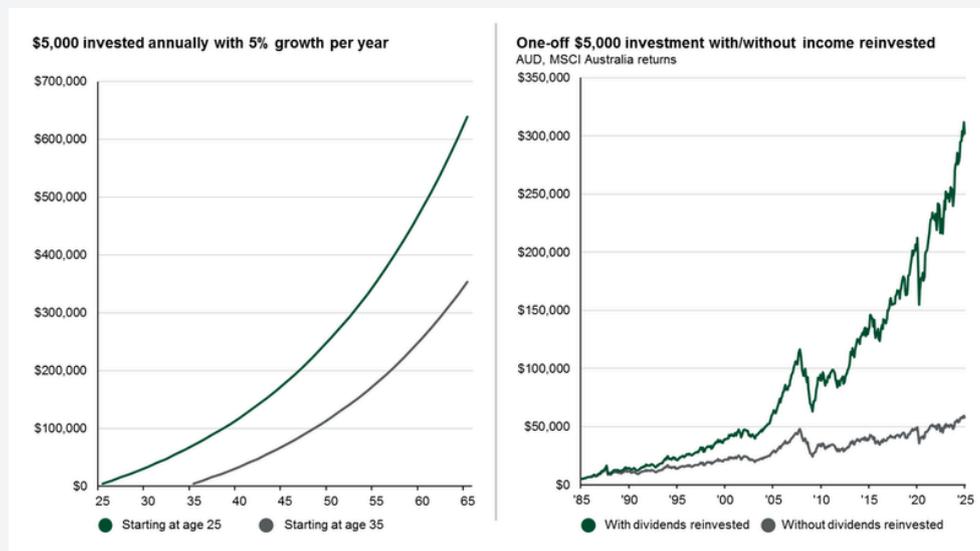
4 TAKE MIRACLE OF COMPOUNDING

Give yourself a head start

The power of compounding returns is enormous and starting early makes all the difference to your ability to build wealth. Starting to save at the age of 25 and investing AU\$5,000 annually in an investment that grows at 5% each year would leave you with over AU\$250,000 more by the age of 65 than if you had started at 35.

If you don't need it, reinvest it!

Reinvesting distributions or dividends works wonders when it comes to taking advantage of compounding. The difference between reinvesting - and not reinvesting - can be huge over the long term.



Source: FactSet, MSCI, J.P. Morgan Asset Management. Past performance is not a reliable indicator of current and future results. Guide to the Markets – Australia. Data as of 31 December 2024.

RULE 4

Take full advantage of compounding by starting to invest as early as possible and by reinvesting your income from investments

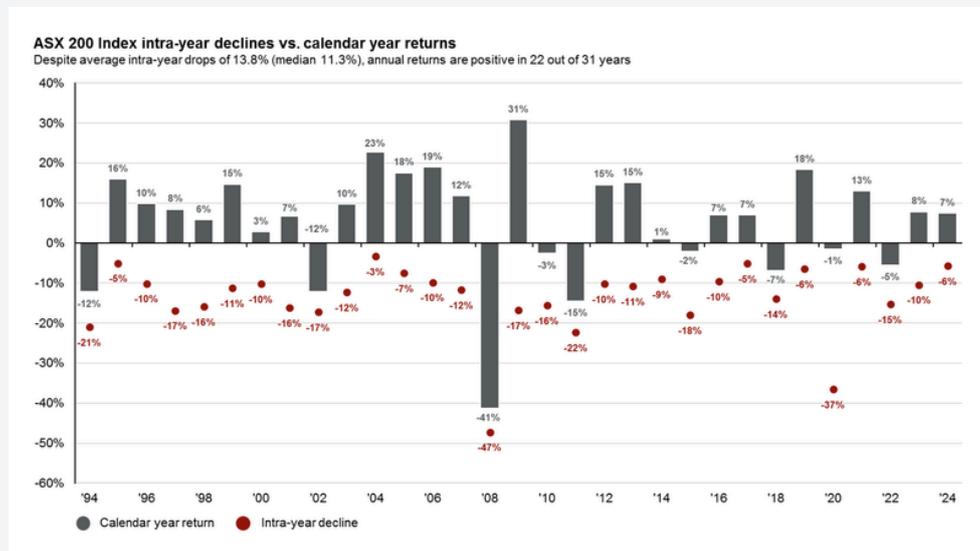
5 VOLATILITY IS NORMAL, MAKE IT YOUR FRIEND



Ignore the market noise

There is always a crisis and every year in the market we experience a period where the overall index experiences negative returns. The red dots on this chart represent the maximum intra-year decline in each calendar year for the ASX 200. It is impossible to predict these pull backs, all of us should expect them but not fear them, after all, markets have suffered double-digit pull backs in 22 of the last 30 years and overwhelmingly recovered.

Have a plan for these pull backs as the market will recover from the pull back to deliver positive returns in most years. The blue bars represent the calendar year market returns. They show that despite the pull backs the equity market tends to recover in most calendar years.



Source: FactSet, MSCI, J.P. Morgan Asset Management. Returns are based on price only and exclude dividends. Intra-year decline refers to the largest market fall from peak to trough in a short period of time during the calendar year. Past performance is not a reliable indicator of current and future results. Guide to the Markets – Australia. Data as of 31 December 2024.

RULE 5

Plan for volatility. Don't panic, more often than not a pull back in the equity market is an opportunity to buy low.

6 BEING INVESTED MATTERS

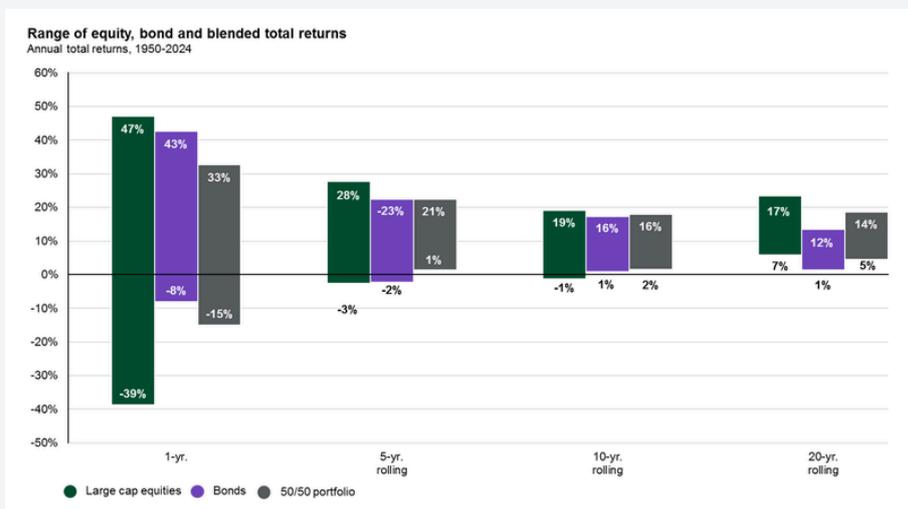


Timing the market is difficult and even more so when your emotions get involved. Pull backs are hard to predict and strong returns usually follow the worst returns. Investors often think that they can outsmart the market or let fear and greed drive them into regrettable investment decisions.

Missing even a small amount of time in the market, we're talking days, can have a significant effect on your portfolio returns.

Investing with a long term horizon works. Markets can have periods over a day, a week, a month and even a year where they are negative. Over the long term they are significantly less likely to suffer losses.

While one-year equity returns have varied widely since 1950 (+47% to -39%), a blend of equities and bonds has not suffered a negative return over any ten-year rolling period within the past 67 years.



Source: Barclays, FactSet, Robert Shiller, Strategas/Ibbotson, U.S. Federal Reserve, J.P. Morgan Asset Management. Returns shown are based on calendar year returns from 1950 to 2018. Large cap equity represents the S&P 500 Shiller Composite and bonds represents the Strategas/Ibbotson for periods from 1950 to 1980 and the Barclays Aggregate after index inception in 1980. Past performance is not a reliable indicator of current and future results. Guide to the Markets – Australia. Data as of 31 December 2024.

RULE 6

Avoid allowing your emotions to rule your investment plans. Being out of the market for even a short period can have a significant impact on your returns. Invest with a long term investment horizon and have conviction in that mindset.

7 DIVERSIFICATION IS THE KING

True diversification works!

Over the last 12 years investors have experienced a significant number of notable market events caused by geopolitical upheaval, natural catastrophe or economics. Diversification helps to minimise the impact of these events.

A well-diversified portfolio including equities, bonds and some uncorrelated assets returned 7.7% per year over this period. Cash on the other hand has proved to be one of the worst investment classes.

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	4Q '24	15-years '09 - '24	Ann.	Vol.																						
EM equity	38.8%	6.0%	11.4%	32.2%	DM equity	27.3%	REITs	14.0%	REITs	13.9%	EM equity	27.5%	Global FI	9.8%	DM equity	28.8%	EM equity	8.1%	DM equity	29.9%	Cash	1.3%	DM equity	23.6%	DM equity	31.4%	DM equity	12.0%	DM equity	13.4%	REITs	18.4%										
Aus. equity	27.0%	Cash	4.7%	Global FI	5.8%	Aus. equity	20.2%	DM equity	15.3%	EM equity	12.1%	DM equity	13.9%	REITs	6.7%	Aus. equity	23.4%	DM equity	6.1%	REITs	18.5%	Aus. equity	-1.1%	Aus. equity	12.4%	EM equity	19.1%	Global FI	6.3%	Aus. equity	7.9%	Aus. equity	13.3%									
Port.	12.6%	EM equity	4.6%	Cash	6.9%	EM equity	17.1%	Port.	16.2%	Port.	10.8%	Global FI	6.9%	Aus. equity	11.8%	Aus. equity	11.8%	Aus. FI	4.5%	EM equity	19.1%	Aus. FI	4.5%	Aus. equity	17.2%	Port.	-8.0%	Port.	10.2%	Port.	12.3%	EM equity	3.3%	REITs	7.8%	EM equity	10.9%					
Cash	3.5%	Port.	1.7%	Port.	-1.8%	DM equity	15.1%	EM equity	13.4%	Global FI	10.0%	Port.	5.1%	DM equity	8.7%	Port.	9.2%	Port.	DM equity	2.0%	REITs	18.9%	Port.	1.5%	Port.	10.4%	Aus. FI	-9.7%	EM equity	9.6%	Aus. equity	11.4%	Port.	1.9%	Port.	7.0%	DM equity	10.8%				
REITs	3.3%	Aus. equity	1.6%	REITs	-2.0%	Port.	14.7%	Global FI	13.0%	Aus. FI	9.8%	Aus. FI	2.6%	Port.	7.9%	REITs	5.1%	REITs	9.2%	Port.	REITs	5.1%	Cash	1.9%	Port.	16.5%	Aus. equity	1.4%	EM equity	3.8%	Global FI	-10.2%	REITs	6.5%	REITs	10.5%	Cash	1.1%	EM equity	6.0%	Port.	9.8%
Aus. FI	1.7%	REITs	0.4%	DM equity	-5.0%	Aus. FI	7.7%	REITs	6.8%	EM equity	7.3%	Aus. equity	2.6%	Aus. FI	2.9%	Aus. FI	3.7%	Port.	1.9%	Aus. FI	7.3%	Cash	0.4%	Global FI	1.1%	REITs	-11.4%	Global FI	5.1%	Global FI	6.3%	Aus. FI	-0.3%	Aus. FI	3.7%	Global FI	9.3%	Global FI	9.3%			
DM equity	1.4%	DM equity	-1.4%	Aus. equity	-10.8%	Cash	4.0%	Cash	2.9%	Aus. equity	8.8%	Cash	2.3%	Global FI	2.6%	Global FI	2.6%	Cash	1.7%	Aus. equity	-2.8%	Global FI	7.0%	Global FI	-0.5%	Cash	0.0%	DM equity	-11.8%	Aus. FI	5.1%	Cash	4.5%	Aus. equity	-0.8%	Global FI	3.5%	Aus. FI	4.0%			
Global FI	-17.1%	Global FI	-7.4%	EM equity	-18.2%	Global FI	3.0%	Aus. FI	2.0%	Cash	2.7%	EM equity	-3.9%	Cash	2.1%	Global FI	-0.8%	Cash	2.1%	Global FI	-4.7%	Cash	1.5%	REITs	-17.1%	Aus. FI	-2.9%	EM equity	-13.9%	Cash	3.9%	Aus. FI	2.9%	REITs	-6.4%	Cash	2.6%	Cash	0.4%			

Source: Bloomberg L.P., FactSet, FTSE, J.P. Morgan, MSCI, Standard & Poor's, J.P. Morgan Asset Management. Annualised return (Ann.) and volatility (Vol.) covers the period 2009 to 2023. EM equity: MSCI Emerging Markets; Australian FI: Bloomberg AusBond Composite (0+Y); Global FI: Barclays Global Aggregate; DM equity: MSCI World; Aus. equity: ASX 200 Index; REITs: FTSE EPRA/NAREIT Australia; Cash: Bloomberg AusBond Bank Bill Index. Portfolio is hypothetical portfolio (for illustrative purposes only and should not be taken as a recommendation): 15% DM equities; 10% EM equities; 25% Australian equities; 25% Australian FI; 10% Global FI; 5% Cash and 10% REITs. Returns are unhedged, total return, in Australian dollars. Past performance is not a reliable indicator of current and future results. Guide to the Markets – Australia. Data as of 31 December 2024.

RULE 7

Construct a well diversified portfolio, taking advantage of assets that generate returns which are truly differentiated from each other.

7 RULES FOR INVESTING OVER THE LONG TERM

Investing for retirement is a long-term journey that requires careful planning, discipline, and a commitment to sticking with your strategy through various market conditions. By following these seven golden rules—planning for longevity, avoiding excessive cash holdings, sticking to a disciplined investment plan, leveraging the power of compounding, embracing volatility, staying invested, and diversifying effectively—you can increase your chances of achieving a secure and prosperous retirement.

Remember, successful investing is not about making perfect decisions every time but about maintaining a consistent and informed approach that aligns with your long-term goals. With these principles in mind, you can navigate the complexities of the financial markets and build a retirement portfolio that supports your desired lifestyle.

1

Know you are living longer and start investing accordingly by saving more, investing with discipline and have a plan for the future.

2

Do not plan to allow your cash weighting to remain elevated for prolonged periods in the current low interest rate environment.

3

You need to be aware of biases. Employ a disciplined plan to minimise the effect of over concentration and home bias.

4

Take full advantage of compounding by starting to invest as early as possible and by reinvesting your income from investments.

5

Plan for volatility. Don't panic, more often than not a pull back in the equity market is an opportunity to buy low.

6

Avoid allowing your emotions to rule your investment plans. Being out of the market for even a short period can have a significant impact on your returns. Invest with a long term investment horizon and have conviction in that mindset.

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Construct a well diversified portfolio, taking advantage of assets that generate returns which are truly differentiated from each other.

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