NBP Fullerton Asset Management Ltd.
A Subsidiary of National Bank of Pakistan

Dr. Amjad Waheed, CFA
Chief Executive Officer

Benefits of Long-term Investing

Investing for the long-term, and relatively at a higher rate of return, compounds the value of your investments due to re-investment of profits over the investment horizon. The Table below illustrates this impact. For example, if an investor invests Rs 100,000, earning a rate of return of 10% per annum, the value of his or her investment will grow to about Rs 6.7 lacs in 20 years. The same investment earning a rate of return of 15% per annum would grow to Rs 16.4 lacs in the same time period. Thus, whereas the rate of return differential is 50% (15% p.a. versus 10% p.a.), the increase in the value of investment is more than double (Rs 16.4 lacs versus Rs 6.7 lacs). Another interesting fact to note from the table is that there is an incredible benefit of investing early. For example, Rs 100,000 invested at 15% p.a. for 20 years, will grow to about Rs 1.6 million. The same Rs 100,000 invested at the same rate of return of 15% p.a. for 25 years rather than 20 years will grow to about Rs 3.3 million – double the amount. Thus, by investing 5 years early, you can actually double your money.

Compounding also depicts how the value of an investment erodes if it earns a return less than the inflation rate. If an investor keeps Rs 100,000 in a bank earning 4% per annum, whereas inflation rate is 7% per annum, the real (inflation-adjusted) value of his or her Rs 100,000 will erode to about Rs.86,746 in 5 years and Rs.65,274 in 15 years. Thus investor has to earn a return equal to or better than the prevailing inflation rate to keep the real value of his or her investment intact. To achieve real growth in investment value, the return on investment should be higher than the inflation rate.

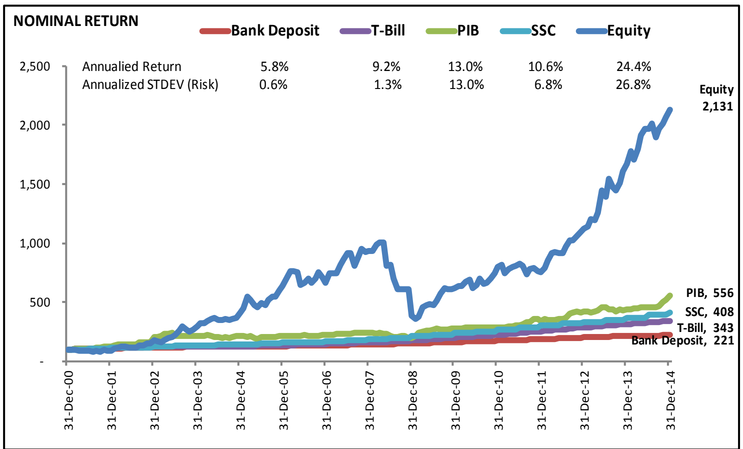
Another advantage of long-term investing is found in the relationship between volatility, return and time. Assets with higher short-term volatility such as stocks and real estate offer higher returns over the long term than less volatile assets such as T-bills and saving accounts. Many investors panic when they see daily fluctuations in stock prices. However, staying the course over the long term has really paid off. Over the last fourteen years, the stock market has delivered the highest nominal and inflation adjusted return to the investors.

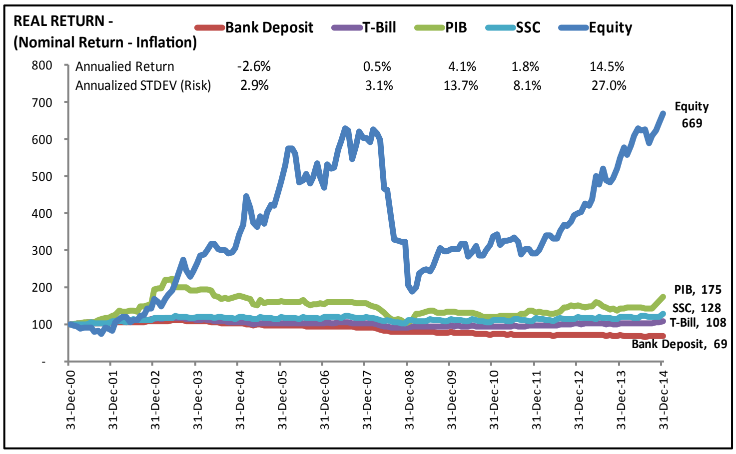
Table: Investment Value Sensitivity Analysis

Initial Investment of Rs. 100,000

Years	Rate of return		
	10%	15%	20%
1	110,000	115,000	120,000
5	161,051	201,136	248,832
10	259,374	404,556	619,174
15	417,725	813,706	1,540,702
20	672,750	1,636,654	3,833,760
25	1,083,471	3,291,895	9,539,622

Value of Rs.100 after 14 Years – Stock market offers significantly higher return in both nominal and real term.





Some of the takeaways for investors from the accompanying table and graphs are: (i) the sooner you start to save, the greater the benefit will be; (ii) a slightly higher rate of return will have a substantial impact on the value of your investment over the medium to long term; (iii) a higher rate of return than inflation ensures that the value of your investment increases in real terms; and (iv) stock market offers a significantly higher rate of return over the long term versus other investment avenues.

Local equities have continued the declining trend triggered by the selloff in the regional and global markets driven by concerns on the global growth, notably China, uncertainty over the first interest rate increase in around a decade in the US, and competitive currency devaluation by several key economies. We reiterate our view that the stock market is expected to post double digit returns over the next year. However, we acknowledge that these returns may be accompanied by heightened volatility. In this backdrop, we advise investors with medium to long-term investment horizons to resist the urge to exit the market and gradually build further positions given attractive stock market valuations & improving economic prospects.