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TUESDAY TIMES

HOW MUCH TIME DO YOU HAVE LEFT?

WHERE DOES YOUR JOURNEY TRULY BEGIN?



How much time do you have left?

This is the one question that I always pose to my clients when we start discussing about investments. I am sure we are all familiar with the concept of compounding and how compounding can snowball investment returns given sufficient time. However, that's not my only reason for the question. It's a lot more to do with managing my clients' expectations and loss aversion. Before I delve deeper into today's topic, let us look at the idea of rolling returns first.

Trailing vs Rolling Returns

Most of us are familiar with the performance table on the fund fact sheets. The table tells us how the fund performed over a specific period. It can be year-to-date, one year, three years, five years, etc. This is trailing return, also known as point-to-point return.

While trailing return is helpful to illustrate the fund's recent performance, it does not necessarily reflect the true picture as the fund performance at the start or end of the measurement period will have a large impact on the results. Hence, an alternative is to look at rolling returns, also referred to as rolling period returns. Rolling returns measure the performance of a particular investment at different point of times.

Here is an example to illustrate the difference between trailing and rolling returns. On 31 Jan 2021, Tom asked his advisor how well the MSCI ACWI Index has performed the past 5 years.

Period	5-Year Trailing Returns as of 29 Jan 2021
1 Feb 2016 – 31 Jan 2021	14.17%

Derived from MSCI ACWI Index Gross Return (USD)

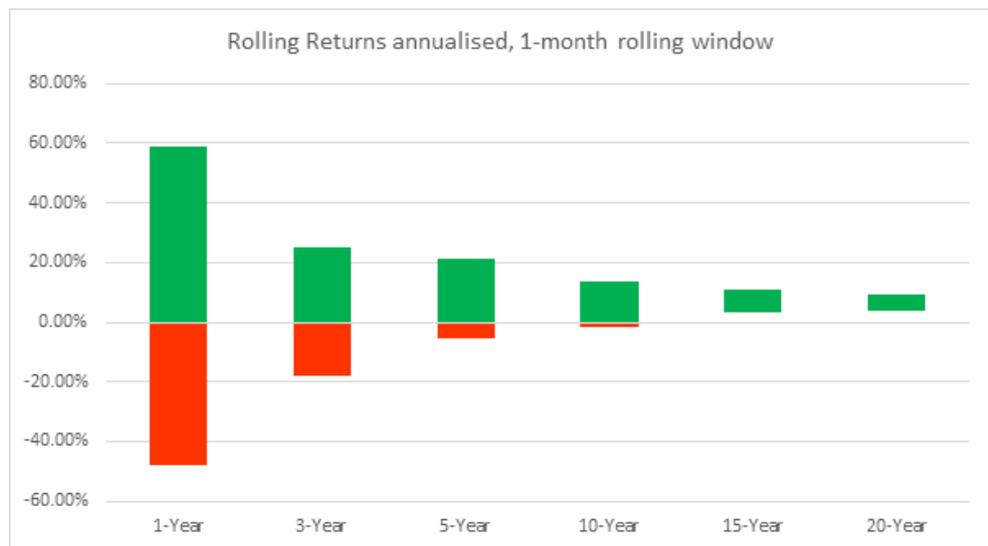


On the other hand, Jerry asked a very different question. He wanted to know how well the same index has performed over several 5-year periods.

Period	5-Year Rolling Returns, 1-month rolling window
1 Aug 2015 – 31 Jul 2020	7.96% p.a.
1 Sep 2015 – 31 Aug 2020	10.81% p.a.
1 Oct 2015 – 30 Sep 2020	10.90% p.a.
1 Nov 2015 – 31 Oct 2020	8.70% p.a.
1 Dec 2015 – 30 Nov 2020	11.44% p.a.
1 Jan 2016 – 31 Dec 2020	12.86% p.a.
1 Feb 2016 – 31 Jan 2021	14.17% p.a.

Derived from MSCI ACWI Index Gross Return (USD)

Jerry noticed that if 2 investors started 1 month apart from each other and they invested for five years, they would have significantly different returns! So how does knowing the difference between trailing and rolling returns relate to today's topic? Let's look at this chart showing the lowest and highest return across different holding periods.



Derived from MSCI ACWI Index Gross Return (USD)

Here are some observations:

- 1) Returns for 1-Year rolling periods can fluctuate widely. The best 1-Year return registered close to a 60% increase, whereas the lowest was a loss of more than 40%.
- 2) Returns for 15-Year and 20-Year rolling periods show no negative returns.

Let's put the above chart into a table, this is what we get.

	1-Year	3-Year	5-Year	10-Year	15-Year	20-Year
No. of periods observed	386	362	338	278	218	158
No. of periods with positive returns	294	299	290	274	218	158
No. of periods with negative returns	92	63	48	4	0	0
Lowest annualised return observed	-47.87%	-18.03%	-5.42%	-1.62%	3.19%	3.74%
Highest annualised return observed	58.96%	25.06%	21.02%	13.85%	10.95%	9.48%

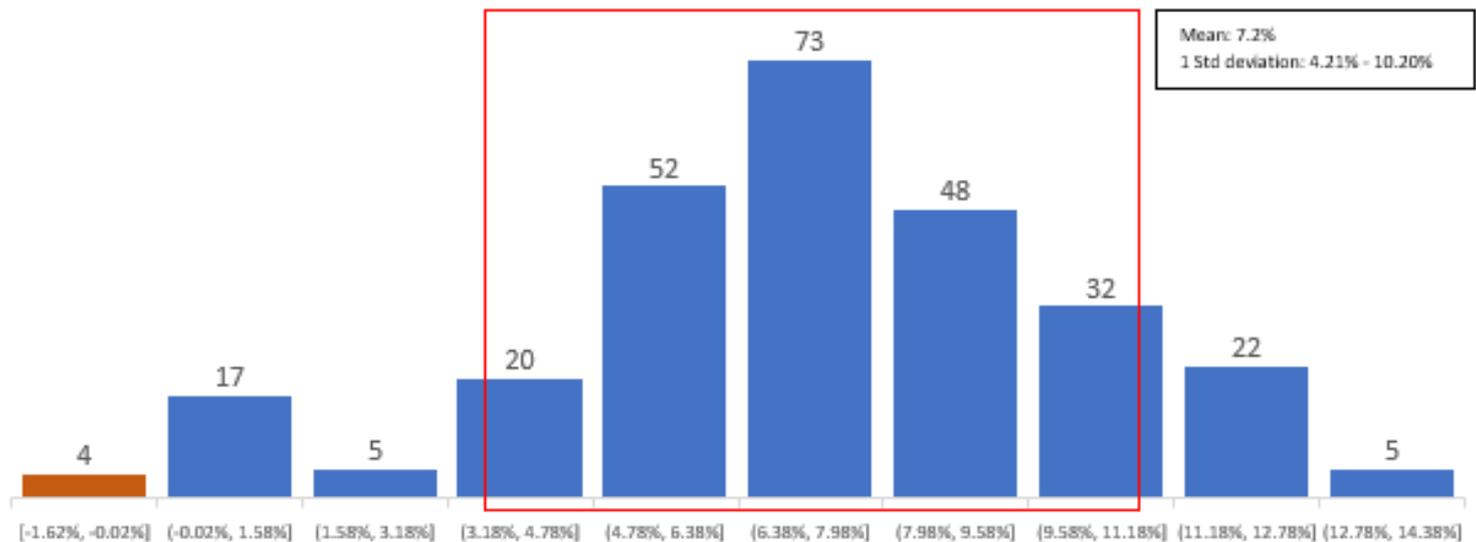
MSCI ACWI Index Gross Return (USD), annualised over different holding periods

As you can see, if Investor A invested for only a 1-year period, he could have potentially made a 58.96% return – **or** lost almost half of his assets.

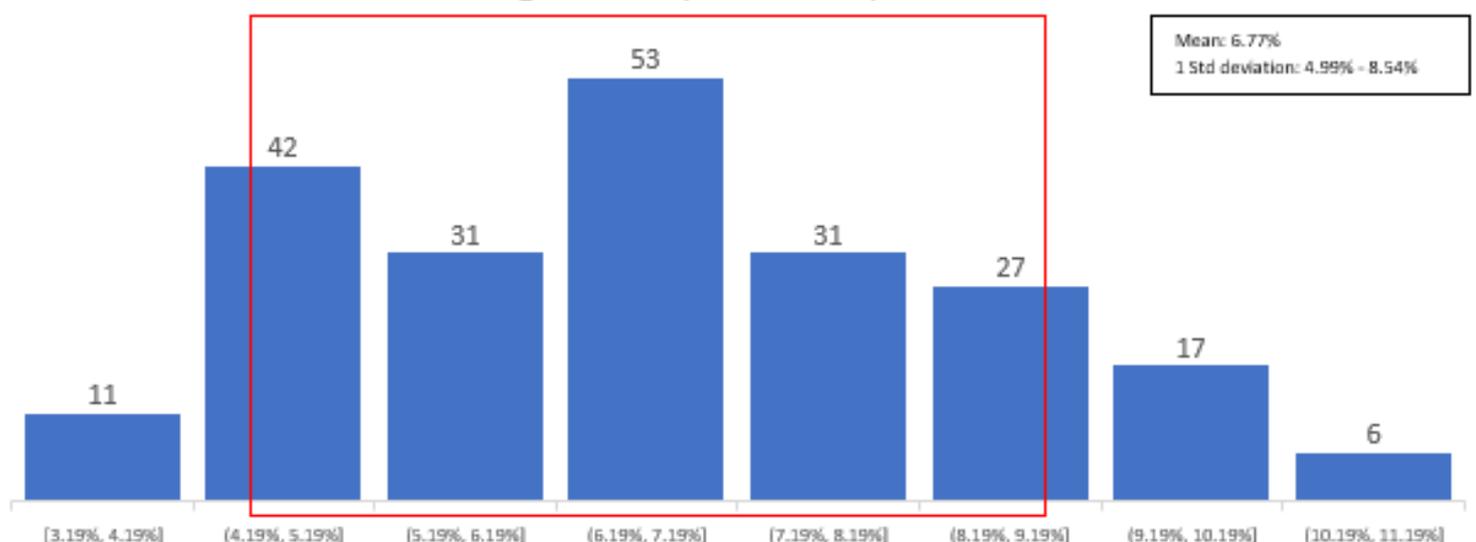
However, if that investment period was a minimum of 15 or 20 years, he would be able to ride out any market downturns that could wipe out half of his investments.

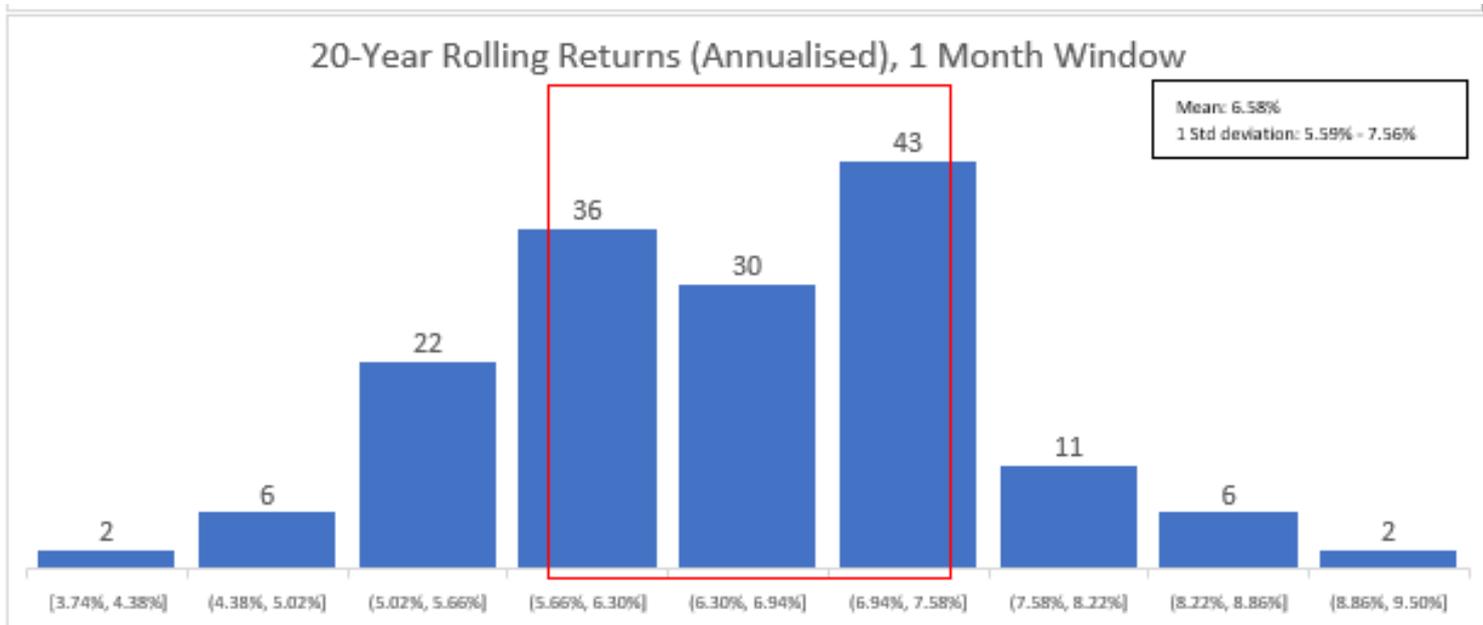
Having said so, it begets another question – will the investment returns, for the same holding period, vary widely? After all, the difference between 3.74% and 9.48% compounded over 20 years can be huge!

10-Year Rolling Returns (Annualised), 1 Month Window



15-Year Rolling Returns (Annualised), 1 Month Window





The red squares represent the “most common” (aka 1 standard deviation from the mean) investment returns over a particular holding period.

For example, if you invest for 20 years, there is a very good chance (approximately 68%) that you will achieve returns per annum of 5.59% to 7.56%.

Key Takeaways

To sum it up in three points:

- 1) If your timeline is short, short-term investments could either work in or against your favour.
- 2) However, if you’re able to stay invested for the long-term with a globally diversified portfolio, you are more likely to avoid losing money. It is inevitable that you will still experience the ups and downs though. Hence, learn to enjoy the ride!
- 3) With a long-term investment timeline of at least 15 years, your investment returns are likely to be more predictable, statistically speaking.

So... how much time do you have?

Disclaimer:

The data and figures are based on MSCI ACWI Index Gross Return (USD) historical month end pricing. Every effort has been placed to ensure accuracy of calculations, errors and omissions excepted.

Please note that past performance is not indicative of future performance.

You may have varying results due to fees and charges applicable to your platform, and the selection of funds or investment tools.

ABOUT THE AUTHOR

Mr. Chong Wei Ping is a licensed Financial Practitioner and an active IFPAS member.

