Time is on Our Side:

The Compounding Benefits of Long-Term Investing

Cetera

Cetera® Investment Management LLC

We live in an era of instant gratification, where technology has made life more convenient and information more accessible than ever. However, this constant connectivity comes at the expense of always being "online." We are constantly inundated with rapid-fire news updates and notifications, while social media amplifies wealth, success, and often unrealistic expectations. The demand for quick wins, instant replies, and social validation can trap us into short-term thinking.

For investors, however, patience pays off. Delaying gratification and maintaining a long-term perspective can lead to better outcomes. In the moment, it may seem like only the short-term matters, but over time, the short-term becomes insignificant. In this commentary, we explore how adopting a long-term mindset can help cut through the noise of short-termism and keep investors focused on their financial goals. Time is on our side, but only if we use it wisely.

A Small Percentage of Retirement Stats

The Decline of Pensions. Only 7% of private-sector employees have a defined benefit plan, commonly known as a pension. Since 1980, the number of private-sector employees with a pension has declined from 30 million to 12 million.[1] Retirement savings are increasingly more reliant on individual planning.

Better Late than Never. According to a survey conducted by AARP, 20% of U.S. adults aged 50 and older do not have any retirement savings.[4] We will explain in this commentary why it's never too late to start a retirement savings plan.

9 to 5 at 65. The labor force participation rate for individuals aged 65 and older and not disabled is 23%. This figure is down from 26% right before the pandemic.[2] Despite this shift, roughly a quarter of retirement-age individuals are still in the labor force.

The Golden Age. The percentage of the U.S. population that is 65 and older has nearly doubled from 8.8% in 1960 to 17.4% today[2] and is expected to reach nearly a quarter by 2050.[3] Our population is aging. It's only a matter of time before we see a *Golden Girls* reboot.

Glass Half Full. Half of private-sector workers are saving in 401(k) plans for the first time, nearly 50 years after these retirement savings vehicles were first introduced.[5]

Trending in the Right Direction. The percentage of private-sector employees that have access to 401(k) plans has risen to 70%, up from 60% a decade ago.[5] While millions of employees still lack access to an employer-sponsored retirement plan, it's an encouraging trend that will help drive more retirement savings.

It's Personal

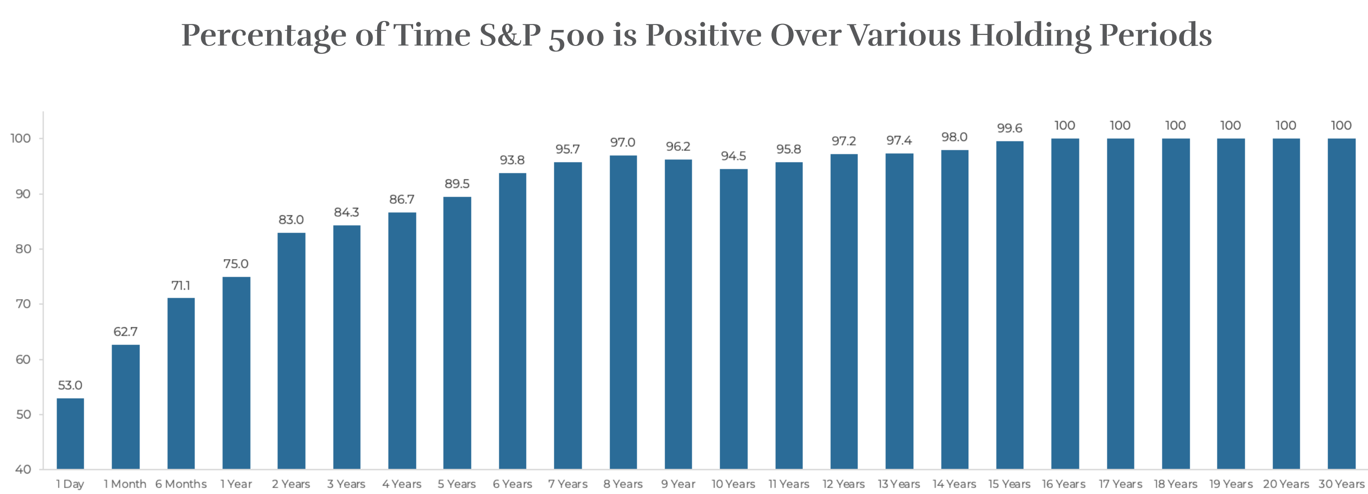
Personal finance is called "personal" for a reason. Everyone's financial situation is unique—shaped by individual circumstances, time horizons, risk tolerance, income levels and goals. Having a plan for short-term emergencies and immediate spending needs can provide peace of mind, allowing you to stay disciplined in saving, investing, and focusing on the long-term. An ample short-term savings cushion also reduces the need to dip into long-term investments when unexpected expenses arise, helping you keep your financial future on track.

Long-term investing is the foundation for achieving major financial milestones, such as retirement or buying a home. But like any worthwhile endeavor, it requires time to grow. Think of it like a newly planted tree—progress may seem slow at first, but with years or even decades of patience and discipline, the growth can be substantial. Staying committed to the long-term journey is key to reaping the rewards.

Expanding Your Horizon

Americans spend over $100 billion a year on lottery tickets,[6] chasing the ultimate get-rich-quick dream. While the odds are astronomically against you, the allure of instant wealth remains strong. Investing, on the other hand, requires time and patience. Markets experience ups and downs, but the probability of positive outcomes increases as you extend your time horizon. Historically, the S&P 500 has been positive 53% of the time on any given day.[7] That probability rises to 63% over one-month periods, 75% over one-year periods, 89% over five years, and 94% over 10 years. Notably, the S&P 500 has been positive in all 16-year rolling periods and beyond, as shown in Figure 1.

Figure 1: Positive Outcomes Increase as You Expand Your Time Horizon



Source: Bespoke Investment Group. Returns since 1928. Total returns used. Past performance is no guarantee of future results.

While past performance isn't indicative of future results, longer time horizons typically lead to better success. Keeping this in mind can help mitigate anxiety during periods of market duress.

Watch Out Below

There will be times when your portfolio declines—but that's a natural part of investing. You can't achieve long term gains without short-term setbacks. While staying focused on the long-term during market downturns can be difficult, history shows that those who stay the course through volatility are rewarded in the long run. As the saying goes, "No pain, no gain".

Market setbacks occur more often than many realize. Since 1980, the S&P 500 has posted positive returns in 37 of 45 calendar years, averaging an annual total return of 13.5%—despite experiencing an average intra-year maximum drawdown (decline) of 14.1%. Even in strong years, short-term setbacks are common. A good example is the brief but intense 2020 pandemic bear market. At the onset of the pandemic in March 2020, the S&P 500 suffered a 33.9% decline in just over a month. Yet by year's end, it had rebounded to deliver an 18.4% total return. Those gains were only realized by investors who resisted the urge to panic and sell while stock prices were down.

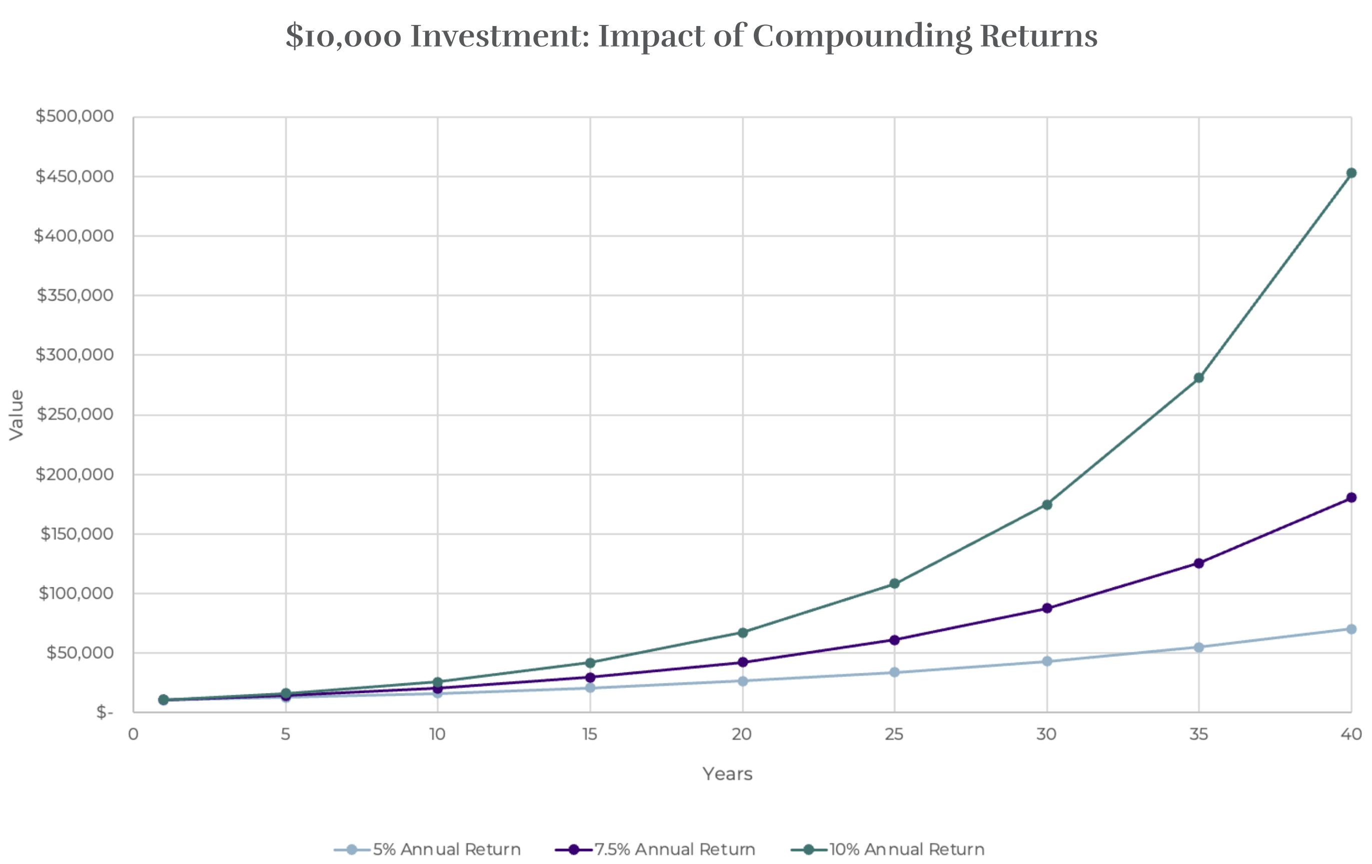
Stock market returns can vary widely from year to year. Since 1980, the S&P 500's best calendar year was 1995, with a total return of 37.6%, while its worst year was 2008, with a sharp 37% decline. That's a 75% difference between the best and worst annual returns over the past 45 years. Investing can often feel like riding a roller coaster, but historically, there have been more ups than downs.

The Power of Compounding

Benjamin Franklin famously said, "Money makes money. And the money that makes money, makes money." He described the power of compounding—one of the most powerful forces in investing. Compounding occurs when your returns generate additional returns, not just on your initial investment but also on the gains and income (such as dividends and interest) that are reinvested over time. As your portfolio grows, even the same percentage increase results in larger dollar gains, much like a snowball growing as it rolls downhill.

For example, a $10,000 investment growing at 10% per year would generate a $1,000 return in the first year. After 10 years, the investment would grow to $25,937 (at a 10% annual return), and after 25 years, it would climb to $108,347 (Figure 2). What's remarkable is how the same 10% return produces dramatically larger gains over time. In the first year, a 10% return yielded $1,000, but by year 25, that same 10% gain generates over $10,000—ten times more than in year one. All it takes is patience. The longer your time horizon, the more compounding does the heavy lifting, turning small gains into significant wealth over time.

Figure 2: Compounding Returns



Source: Cetera Investment Management

Looking at historical market returns (Figure 3), the S&P 500 increased at an annualized rate of 10.6% (including dividend reinvestment) over the last 35 years. A $10,000 investment tracking the S&P 500 during this 35-year period would have grown to an impressive $339,283. U.S. small-cap stocks returned 9.2% annualized over the same period, turning an initial investment of $10,000 into $216,537. While international equities lagged behind U.S. stocks, they still generated strong long-term returns through the power of compounding. Intermediate bonds, offering lower volatility and smaller drawdowns compared to equities, delivered a 5.0% annualized return since 1990. While more stable, bond returns were more modest than stocks. Importantly, all of the categories shown in Figure 3 outpaced inflation, which averaged 2.7% annually since 1990. However, the margin was narrowest for 3-Month T-Bills, which are typically owned for short-term liquidity and safety.

Figure 3: Market Returns Since 1990

Category	Index	Annualized Return	Growth of $10,000
Inflation	Consumer Price Index (CPI)	2.7%	$25,147
U.S. 3-Month T-Bills	ICE BofA U.S. 3-Month Treasuries	2.9%	$27,006
U.S. Intermediate Bonds	Bloomberg U.S. Aggregate Bond	5.0%	$55,031
Gold	S&P GSCI Gold	5.2%	$59,178
Int'l Developed Stocks	MSCI EAFE	5.0%	$54,766
Int'l Emerging Market Stocks	MSCI Emerging Markets	7.4%	$122,909
U.S. Small Cap Stocks	Russell 2000	9.2%	$216,537
U.S. Large Cap Stocks	S&P 500	10.6%	$339,283

Source: Cetera Investment Management, FactSet, U.S. Bureau of Labor Statistics, ICE BofA, Bloomberg, S&P Global, MSCI, Russell Investments. Total returns used, which include dividend and interest reinvestment. The growth of $10,000 shows how much an initial investment would have grown from 1990 to 2024 if it tracked the indexes in the data table. Investors cannot invest directly in indexes. Data is from 1/1/1990 to 12/31/2024.

Over the last 35 years, markets have endured their fair share of turbulence—including four recessions, multiple bear markets, and deep corrections. Yet despite these setbacks, markets have continued to push higher over time. Long-term investors who stayed the course were able to harness the power of compounding, achieving investment growth even through extended downturns. Several major asset classes, including U.S. large-cap stocks, emerging markets, international developed equities, and gold, have experienced decade-long declines at various points over the past 35 years.

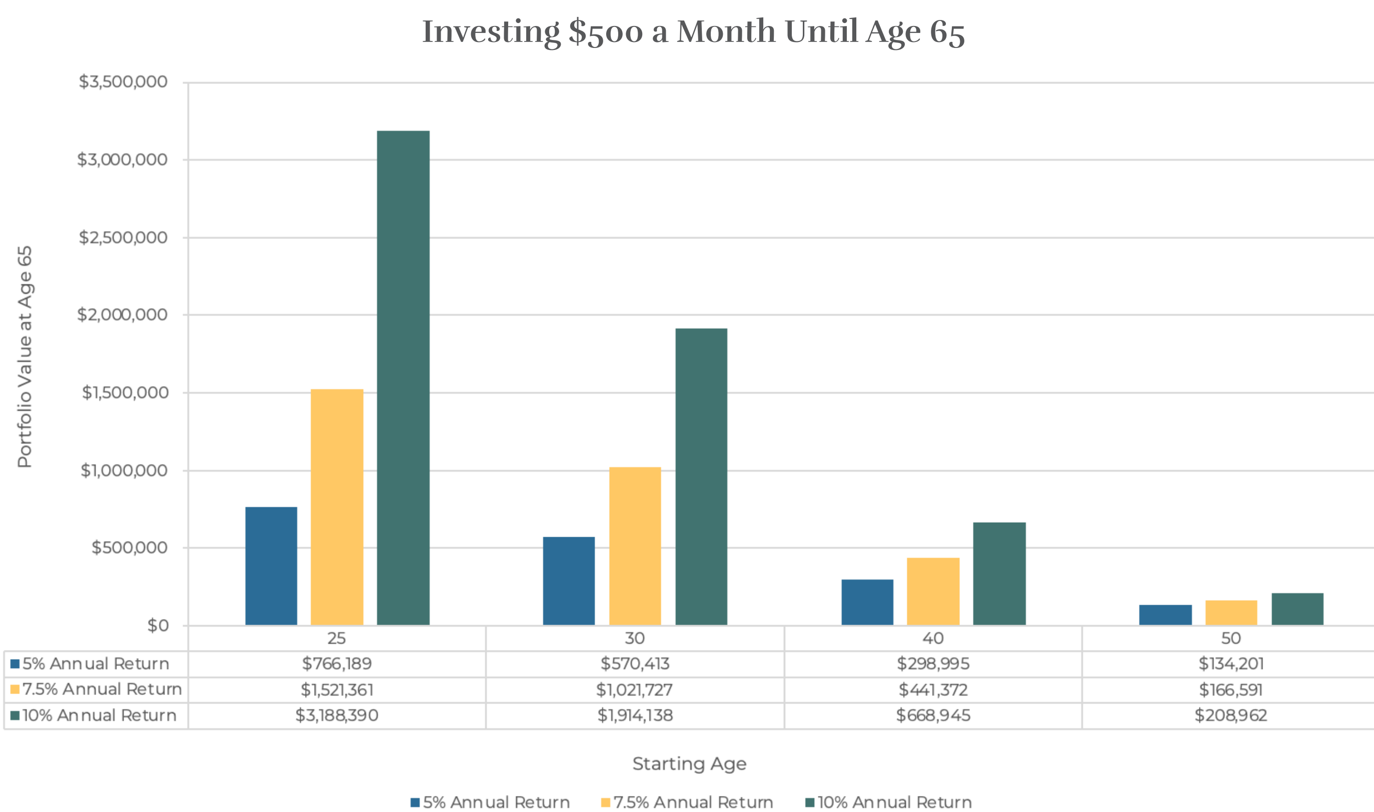
Diversifying across asset classes—and extending that diversification across international equities—can help mitigate volatility, and potentially offset weakness in any one area of the market. Investing when the stock market is "on sale" plants the seeds for future growth. On the other hand, selling when the market is down can mean missing out on the eventual recovery. While bear markets and extended volatility can be painful in the short term, they often create valuable long-term opportunities for disciplined investors.

Early Bird Gets the Worm

The earlier you start investing, the better off you'll be in the long run. If you haven't started yet, the best time to begin is now—because the longer you wait, the harder it becomes to reach your long-term financial goals.

The impact of starting early is significant. Consider an investor who begins investing $500 per month at age 25 and continues until retirement at age 65. With a 10% average annual return, their portfolio would grow to a staggering $3.19 million. At a 7.5% return, it would reach $1.52 million, and with a more conservative 5% return, it would still accumulate $766,000 (Figure 4).

Figure 4: The Compounding Benefits of Investing Early



	25	30	40	50
5% Annual Return	$766,189	$570,413	$298,995	$134,201
7.5% Annual Return	$1,521,361	$1,021,727	$441,372	$166,591
10% Annual Return	$3,188,390	$1,914,138	$668,945	$208,962

Source: Cetera Investment Management

Delaying investing can have a significant impact on your long-term wealth. If you wait to start at age 40 instead of 25, your portfolio will be considerably smaller by retirement—even with the same monthly contributions. For example, an investor who begins at 40 and earns a 10% average rate of return will result in a portfolio value of $669,000 by age 65. With a 7.5% rate of return, the portfolio would grow to $441,000, and with a 5% rate of return, it would reach $299,000. Even more striking, an investor who starts at 25 but earns only a 5% rate of return will still end up with more ($766,000) than someone who waits until 40 and earns a higher 10% return ($669,000). This illustrates a key principle: time in the market often matters more than the rate of return.

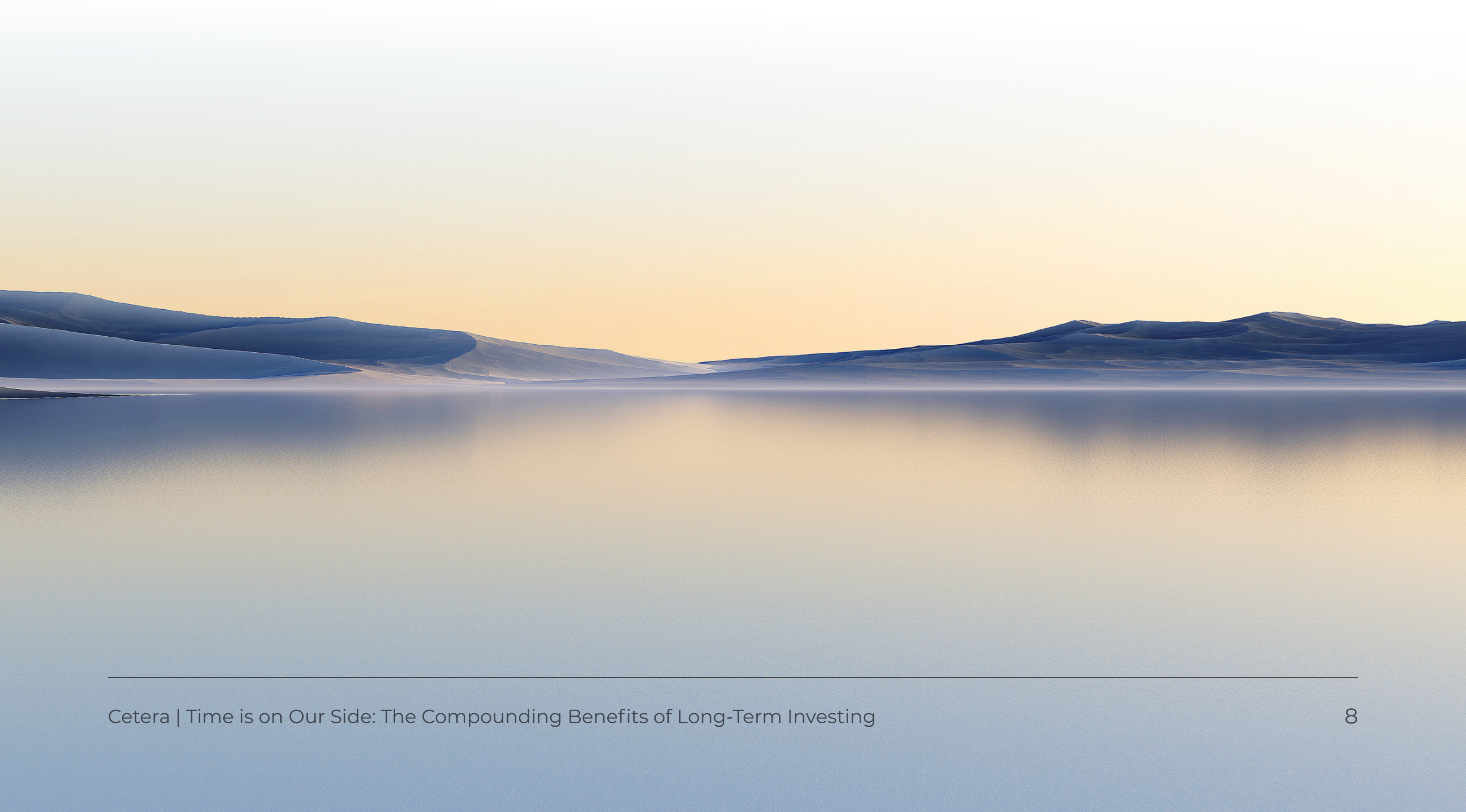
Compounding is a powerful force, but it requires time to work its magic. If you feel behind on savings, don't get discouraged—starting late is still far better than not investing at all. While waiting until age 50 or later to begin investing will result in a lower retirement nest egg, late starters still have options. Increasing investment contributions, delaying retirement, or taking advantage of IRS catch-up provisions, which allow for higher retirement account contributions after age 50, can help bridge the gap.

Compounding doesn't end when you retire—it can continue to work in your favor for decades. For a 65-year-old couple, there's a 71% chance that at least one partner will live to age 85 and a 44% chance that one will reach 90.[8] That means your investments may need to keep growing after you stop working but you may also have decades left of compounding during your golden years. Investing is a lifelong journey. While starting early maximizes the power of compounding, staying invested throughout retirement helps your money continue to work for you. The early bird gets the worm, but even in retirement, compounding remains a powerful ally.

Look Towards the Horizon

There is always a trade-off between instant gratification and long-term rewards, but building wealth doesn't mean sacrificing happiness today to enjoy tomorrow. The key is balance—enjoying life in the present while also planning and saving for the future. Strong long-term savings habits can provide peace of mind as your nest egg grows, reducing financial stress from unexpected expenses while helping meet savings goals. The long run is simply a series of short-term challenges, but keeping your eyes on the horizon can help maintain focus on what truly matters. By fixating too much on the short-term, you risk missing out on long-term growth opportunities.

Time is on our side—if we use it wisely. Your Cetera financial professional can help you stay on track, ensuring you work toward your long-term financial goals while navigating through the short-term.



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Glossary

The S&P 500 is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries

The ICE BofA 3 Month U.S. Treasury Index measures the performance of a single issue of outstanding treasury bill which matures closest to, but not beyond, three months from the rebalancing date. The issue is purchased at the beginning of the month and held for a full month; at the end of the month that issue is sold and rolled into a newly selected issue

The Bloomberg US Aggregate Bond Index is a broad based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. Eligible bonds must have at least one year until final maturity, but the index holdings have a fluctuating average life of around 8.25 years. This total return index is unhedged and rebalances monthly.

The S&P GSCI Gold Index, a sub-index of the S&P GSCI, provides investors with a reliable and publicly available benchmark tracking the COMEX gold future. The more widely tracked S&P GSCI index is recognized as a leading measure of general price movements and inflation in the world economy. The index represents commodity market beta is world-production weighted and is designed to be investable by including the most liquid commodity futures.

The MSCI EAFE is designed to measure large and mid cap equity market performance of 21 developed markets, including three regions (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted, covering 85% of the free float-adjusted market cap in each of the 21 countries.

The MSCI Emerging Markets index is designed to measure large and mid cap equity market performance in global emerging markets. The Index is market-capitalization weighted, covering 85% of the free float-adjusted market cap in each of 24 countries.

The Russell 2000 index is comprised of 2000 small-capitalization companies. It is made up of the bottom two-thirds in company size of the Russell 3000 index.

The Consumer Price Index (CPI) measures the monthly change in prices paid by U.S. consumers. The Bureau of Labor Statistics (BLS) calculates the CPI as a weighted average of prices for a basket of goods and services representative of aggregate U.S. consumer spending.[1]

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