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Time horizons and staying invested

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A portfolio's time horizon is only useful if the client can remain invested for long enough to benefit from it.

After a strong period of returns across our strategies, it is sensible to pause and reassess objectives. Strong returns are not a reason to change course, but they can quietly alter expectations. When markets have been kind, it is easy to assume that the recent path will continue. Good planning requires a more measured view.

Time horizon is often discussed as if it belongs mainly to the asset. A bond has a maturity date. An equity investment has an expected holding period. A portfolio has a stated objective and a period over which that objective should be judged. All of that matters, but it is not the whole picture. Time horizon also belongs to the client.

A portfolio may be built with a five-year objective, but if the client loses confidence after one difficult year, the effective horizon has already shortened. A retirement portfolio may be designed for long-term income, but family circumstances can create a nearer-term liquidity need. An allocation that was suitable at the outset may become harder to live with if the client no longer accepts the journey required.

Risk is not only about what a client can afford financially. It is also about what they can experience in practice.

Drawdowns are not felt as neat long-term averages. They are felt through falling values, difficult conversations and uncertainty about what comes next. A client who accepts volatility in theory may feel differently when markets are weak for an extended period. Sometimes that reflects a change in circumstances. Sometimes it reflects a normal behavioural response. Distinguishing between the two is part of good advice.

This is why communication is part of investment management. Clients should understand why each part of a portfolio is there. Some assets are held for growth. Others are held for preservation, income, liquidity, inflation sensitivity, or diversification. They will not all work at the same time.

A portfolio is more like a flight plan than a collection of identical parts. The destination matters, but turbulence does not necessarily mean the aircraft is off course. Equally, not every disturbance should be ignored. The task is to distinguish between expected discomfort and evidence that the facts have changed.

Clear communication helps avoid two common mistakes: excessive activity driven by short-term discomfort, and clinging to an investment after the original reason for holding it has weakened.

At Tacit, we think about three horizons: the economic horizon of the assets, the portfolio horizon set by the mandate, and the behavioural horizon of the client. In practice, the effective horizon is usually determined by the shortest of the three.

Following strong returns, now is not the time to extrapolate recent performance into the future. It is a good time to revisit objectives, liquidity needs and tolerance for the path ahead. Good outcomes depend not only on what a portfolio can deliver, but on whether the client can stay with it long enough for the strategy to work.

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