

Nevlin

THE NEVLIN GUIDE

Long-Term Investing

Principles for informed decisions



Clear goals

Mindful costs

Long-term perspective

Seven principles. One thoughtful approach.

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Introduction

Here is a strange fact about investing: the people who do best at it are often the ones who do the least. Not because they are lazy, but because they decided early what they were doing, and then refused to be talked out of it by the news, their neighbours, or their own nerves.

Long-term investing means buying assets you intend to hold for years, usually five or more, and letting growth compound instead of trying to outguess next month's prices. Time horizon changes everything. A one-year investor has to care about next quarter's wobble; a twenty-year investor can treat the same wobble as the admission price for higher expected returns. Think of it as the difference between watching a single wave and watching the tide.

The seven principles below are not predictions. They are drawn from regulator guidance, academic research and decades of market data, and they have one modest ambition: to help you make decisions you can explain to yourself and keep when it gets uncomfortable.

THE SEVEN PRINCIPLES

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Define your goals and time horizon first

Nobody packs for a trip before knowing where they are going, yet plenty of people buy a fund before knowing what the money is for. Every sound allocation starts with a date and a purpose, not with a product. The SEC's investor education office defines time horizon as the number of months, years or decades you plan to invest to reach a specific financial goal, and makes the obvious but often ignored point: longer horizons can tolerate more volatility, shorter ones cannot.

A practical way to apply this is to sort money by *when it leaves*, not by how much it is:

Horizon	Typical goal	What the horizon implies
Under 3 years	Emergency fund, house deposit, tuition due soon	Capital preservation matters more than growth; large drawdowns cannot be waited out
3 to 10 years	Car, home upgrade, child's education	A mix of growth and stability; volatility is tolerable but not unlimited
10+ years	Retirement, financial independence, legacy	Growth assets can dominate; short-term declines are expected and survivable

The SEC's own guidance says the same thing in plainer words: short-term goals want conservative investments, long-term goals can take more risk, and the right mix depends on your age and what you are saving for. Write the goal and the date down before you invest. Three years from now, when markets are loud and your group chat is louder, that sentence on paper is what stops you doing something you will regret.

Understand the relationship between risk and return

There is no such thing as a free return. Higher expected return is the fee the market charges you for tolerating uncertainty, and you cannot negotiate it away. The SEC describes risk tolerance as your ability and willingness to lose part or all of an investment in exchange for potentially higher returns, and notes that as risk rises, investors demand to be paid more for carrying it.

Three things follow, and each one surprises somebody:

01 Stocks have historically delivered the highest long-run returns of the main asset classes — and the roughest ride. The SEC notes that the U.S. stock market has averaged roughly 10% a year historically, closer to 6–7% after inflation, with a dry warning that "the long term" can take a long, long time to arrive. Anyone who bought in 1929 or 2000 can confirm this.

02 "Safe" is not the same as "risk-free." Cash in a low-interest account for twenty years does not lose money; it loses purchasing power, quietly, a little every year. The SEC calls parking long-term money in low-yield products a frequent mistake. It is a loss that never shows up on a statement, which is exactly why people miss it.

03 If someone offers you high returns with low risk, you are not being offered an investment. You are being offered a story. The SEC's blunt version: a promise of high return necessarily carries a high risk of losing money.

So the real task is not finding the allocation with the best number on a spreadsheet. It is finding the one you will still be holding at the bottom of a bad year. A portfolio that is "optimal" and gets sold in a panic is worse than a slightly duller one you keep. Online risk questionnaires can help you think about this, though the SEC cautions that their results are sometimes tilted toward whatever the sponsoring firm happens to sell.

Diversify across assets, regions and sectors

Diversification is one of the few risk-reduction tools that work without a crystal ball. You do not need to know which asset will disappoint; you only need to own enough different things that one disappointment cannot sink you. The SEC defines it as spreading money among investments so that conditions that hurt one may help another, and sums it up with the oldest line in finance: don't put all your eggs in one basket.

The basket has more than one layer:

Level	What it means	Why it matters
Across asset classes	Stocks, bonds, cash, possibly real estate	Different assets respond differently to growth, inflation and interest rates
Within an asset class	Many companies, not one or two	A single company's failure does not sink the portfolio
Across sectors	Technology, health care, consumer goods, energy, financials	Sector booms and busts rarely move together
Across regions	Home market plus developed and emerging markets	Country-specific shocks and currency moves are partly offset

Two traps hide here, and the SEC flags both. First, owning a fund is not automatically diversifying: a fund built around one sector or one theme is a concentrated bet with a reassuring name. Second, owning five funds is not five times safer if they all hold the same ten companies. Check the top holdings. A surprising number of "diversified" portfolios turn out to be the same handful of tech giants wearing different hats.

The SEC also warns against letting your retirement depend heavily on one company's stock, even one you believe in, and even one you work for. Loyalty is a fine quality in a person and a dangerous one in a portfolio. For most people, broad index funds and ETFs remain the simplest way to own a small piece of nearly everything at very low cost.

Keep costs low — fees and their compounding effect

You cannot control what the market returns. You can control, down to the hundredth of a percent, what you pay to be in it. Fees are one of the few inputs that are known in advance and entirely in your hands, which makes ignoring them the most expensive form of laziness in investing. The SEC's July 2025 investor bulletin shows the damage with a hypothetical \$100,000 growing 4% a year for 20 years:

Annual fee	Value after 20 years (approx.)	Shortfall vs. 0.25% fee
0.25%	\$208,000	—
0.50%	\$198,000	\$10,000
1.00%	\$179,000	\$29,000

Read that bottom row again. A fee that sounds like a rounding error, 1% instead of 0.25%, quietly removed about 14% of the final sum. Nothing dramatic happened; no crash, no scandal. The money simply left a little at a time, and every dollar that left stopped compounding for everyone but the person collecting it.

Keep costs low — fees and their compounding effect

The SEC sorts fees into two families, and both bite:

Transaction fees: commissions, markups and markdowns, mutual-fund sales loads, surrender charges on annuities. Charged each time you buy, sell or exchange.

Ongoing fees: advisory fees based on assets, a fund's annual operating expenses (the expense ratio), retirement-plan administration fees, annuity fees. Charged every year whether or not you trade.

Where to find them: a fund's prospectus carries a standardised fee table; an adviser's Form CRS and Form ADV explain how they get paid. The SEC's advice is almost rude in its simplicity: read these, ask directly "what will I pay, in total, per year?", and compare. Fees are sometimes negotiable and almost always avoidable in part. Nobody will volunteer this information. You have to ask.

There is a bigger reason to care. Expensive funds are usually expensive because someone is being paid to beat the market, and the scorecard on that is not kind. In S&P Dow Jones Indices' SPIVA report for year-end 2025, 79% of active large-cap U.S. equity funds trailed the S&P 500, and over 15-year periods SPIVA has repeatedly found no equity category where most active managers came out ahead. The methodology has critics who argue it overstates the gap, and that debate is worth knowing about. But the core point rests on simple arithmetic: before costs, investors as a group earn the market's return; after costs, the average investor in higher-fee funds must earn less. The quiet lesson: paying more for the hope of outperformance is, on average, paying more to get less.

Time in the market, not timing the market

Picture 35 years of the stock market as roughly 8,800 trading days. Now imagine you could be absent for just ten of them. Not ten years, not ten months. Ten days. If you picked the wrong ten, you would have given up a quarter of your annual return. That is not a thought experiment; it is what the data shows, and it is the whole case against market timing in one sentence.

The reason is structural. A large share of long-run returns arrives on a small number of ferociously good days, and those days have an annoying habit of showing up right next to the worst ones, in the middle of a panic, precisely when a nervous investor has just moved to cash and is waiting for "things to settle down."

Schroders ran the numbers on the S&P 500 over roughly 35 years:

Scenario	Annualised return
Fully invested throughout	10.65%
Missed the 10 best days	8.13%
Missed the 20 best days	6.47%
Missed the 30 best days	5.06%

Missing thirty days, fewer than one a year, cut the annual return by more than half. Compounded over the full period, that is the difference between a comfortable retirement and a nervous one.

Time in the market, not timing the market

2024 / RETURN GAP

8.48 points

2025 / RETURN GAP

0.72 points

This is not a hypothetical about hypothetical people. DALBAR's Quantitative Analysis of Investor Behavior tracks what real fund investors actually earn, and 2024 was a textbook case: the S&P 500 returned 25.02% while the average equity fund investor collected 16.54%. The missing 8.48 points were not lost to a crash. They were lost to investors pulling money out in every quarter of the year, with the biggest withdrawals landing just before a strong rally. Then came 2025: a volatile spring and plenty of reasons to flee, yet the gap shrank to 0.72 points, the smallest since 2012. Same market machinery, different behaviour, very different outcome.

Market timing demands two correct decisions, when to leave and when to come back, and being wrong on either one is expensive. The fair objection to "best days" charts is that anyone sitting in cash also misses some of the worst days. True. But nobody has demonstrated the ability to dodge only the bad ones, and the people who try tend to come back after the rebound, having collected the loss and skipped the recovery. For a long-term investor, the boring alternative is also the reliable one: a fixed schedule of regular contributions, which the SEC recommends precisely because it removes the question "is now a good time?" from the table.

Manage behaviour — emotions, biases and discipline

Here is the uncomfortable truth hiding inside every fund fact sheet: the return printed on it is not the return its investors earned. The fund did fine. The people in it bought high, sold low, and came back late. Morningstar measures this every year in a study aptly named Mind the Gap. The 2026 edition, covering the ten years to 31 December 2025, found that the average dollar in U.S. funds and ETFs earned about 1.2 percentage points a year less than the funds themselves reported, around 12% of everything the funds generated, surrendered through the timing of purchases and sales. The prior edition, for the decade to end-2024, found the same 1.2-point gap: investors earned 7.0% a year from funds that delivered 8.2%.

The fine print is where it gets interesting:

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- **The wilder the fund, the wider the gap.** Volatile sector funds, alternatives and the trendiest niche products showed the biggest shortfalls, because sharp moves provoke sharp reactions. The exciting funds are exciting for a reason, and the reason costs money.
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- **Boring wins.** Investors in broad, diversified, low-volatility funds captured nearly everything their funds delivered. Nobody brags about these funds at dinner. They retire on them.
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- **It is not about active versus passive.** Index-fund investors showed a gap too, smaller but real. The problem is not what you own; it is the pattern of your buying and selling.
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Manage behaviour — emotions, biases and discipline

DALBAR's research names the culprits, and you will recognise all of them: loss aversion (a 10% loss hurts far more than a 10% gain pleases), anchoring to the price you paid, overreacting to headlines, and herding into whatever everyone else just bought. None of these are character flaws. They are standard-issue human wiring, which is exactly why willpower is a poor defence against them.

Discipline, then, is less about being strong and more about being well designed. Build the system so that the right thing happens by default:

- 01 Automate contributions.** Money that moves on the 1st of every month does not ask how you feel about the market.

- 02 Decide the rebalancing rules now** (Principle 7), so that selling winners and buying laggards is a rule you follow, not a judgment you agonise over.

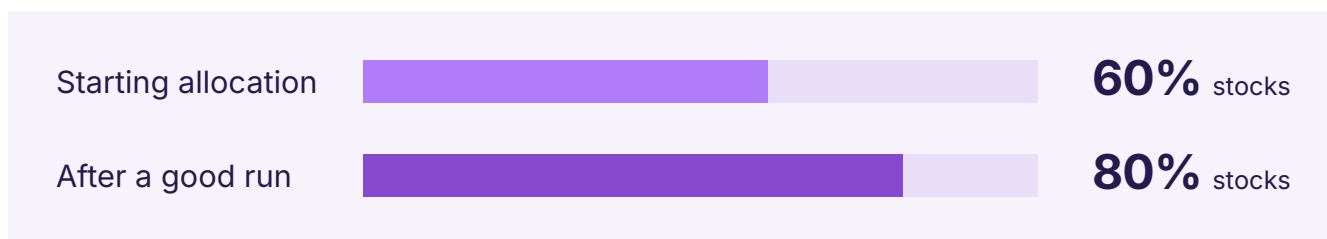
- 03 Check the portfolio on a calendar, not on a headline.** Every look is a chance to react; look less.

- 04 Write a one-page investment policy:** goals, target allocation, and what you will do when the portfolio is down 20%. Reread it before any unplanned trade. Future you will be grateful to present you.

- 05 Keep an emergency fund outside the portfolio,** so that a broken boiler never forces a sale on the worst day of the year.

Rebalance and review periodically

A portfolio is like a garden: leave it alone long enough and the fastest-growing thing takes over. That thing is usually also the riskiest, so the risk you end up holding is quietly no longer the risk you chose. The SEC's standard example: you start at 60% stocks, a good run carries that to 80%, and you now own a portfolio for someone much braver than the person who set it up. Restoring the mix means selling some stocks, or steering new money elsewhere.



Rebalancing has a sneaky second benefit, which the SEC spells out: by trimming what has just gone up and adding to what has just gone down, it forces you to sell high and buy low. That feels wrong every single time. It feels wrong because it is the opposite of what instinct wants, and instinct, as Principle 6 showed, has a poor track record.

How often? Less than you would think. Vanguard's research found the sweet spot is neither monthly nor quarterly (too much trading, too much cost), nor every couple of years (too much drift), and that for most people a simple annual rebalance was the most efficient on a risk-return basis, even during turbulent markets when trading gets expensive. The SEC agrees that rebalancing works best done relatively infrequently, on a calendar (every 6 or 12 months) or when an asset class drifts past a preset threshold.

Rebalance and review periodically

Three ways to do it, none of them complicated:

Method	Rule	Trade-off
Calendar	Rebalance on a fixed date, e.g. once a year	Simple and predictable; may trade when drift is small
Threshold	Rebalance when any asset class is more than, say, 5 percentage points off target	Responds to real drift; requires monitoring
Cash-flow	Direct new contributions and dividends to underweight assets	Cheapest and most tax-efficient; may not be enough after large moves

The annual check-in is also the right moment to ask whether the plan itself still fits your life. A new job, a baby, a mortgage, or simply being five years closer to the goal are all good reasons to adjust the target allocation. Last quarter's headlines are not. The rule of thumb: change the plan when your life changes, not when the market does.

Common mistakes of long-term investors

Most long-term investing damage is self-inflicted, and the list of ways to do it is short. Every item below breaks one of the seven principles, which is a useful way to recognise a mistake while you are still in the middle of making it.

Mistake	Principle it violates	What it looks like
Investing without a goal or date	1	Holding long-term money in cash, or short-term money in stocks
Chasing recent performance	2, 6	Buying a fund or sector because it rose last year
Concentration	3	A large position in one stock, one sector or employer shares
Ignoring fees	4	Paying 1%+ a year without knowing it, or holding high-load products
Selling in a downturn	5, 6	Moving to cash after a fall and re-entering after the recovery
Trading on news	6	Reacting to headlines, forecasts or social media
Never rebalancing	7	Letting stocks grow from 60% to 80% of the portfolio
Mistaking many funds for diversification	3	Holding five funds with the same top ten stocks
Falling for guaranteed-return claims	2	Any product promising high return with little or no risk

The last row earns its own paragraph. The SEC's standing warning is that a promise of high returns necessarily carries a high risk of loss, and that fraudsters routinely impersonate registered professionals and firms, sometimes borrowing real names. Checking a professional's registration takes five minutes and is a step that is easy to skip and costly to miss. If a conversation about your money ever includes the word "guaranteed" and the phrase "act now" in the same breath, that conversation is over.

Checklist before making a long-term investment decision

Run through this before any purchase, sale or change of plan. It takes three minutes, and a "no" on any line is permission to stop and think. The point is not to pass the test; it is to make sure the decision belongs to you and not to the moment.

- ☐ I know which goal this money serves and when I will need it.
- ☐ My time horizon for this money is at least five years.
- ☐ I have an emergency fund outside the portfolio, so I will not be forced to sell.
- ☐ I understand what this investment is and how it makes money.
- ☐ I know the worst-case drawdown this investment has had, and I could hold through it.
- ☐ This purchase keeps the portfolio diversified across assets, sectors and regions.
- ☐ I have checked the total annual cost (expense ratio, advisory fee, transaction costs).
- ☐ I have compared the cost with a broad, low-cost alternative that serves the same purpose.
- ☐ I am not acting on a headline, a tip, a forecast or the fear of missing out.
- ☐ This decision is consistent with my written plan and target allocation.
- ☐ If a professional recommended it, I have checked their registration and how they are paid.
- ☐ I can explain this decision to someone else in two sentences.
- ☐ Nobody has promised me a specific return.

Sources and further reading

All facts and figures in this guide come from the following publicly available sources, accessed 14 October 2026. This is the only place links appear.

SOURCE / PUBLISHER	WHAT IT COVERS
Asset Allocation and Diversification U.S. SEC, Investor.gov	Time horizon, risk tolerance, diversification, rebalancing
How Fees and Expenses Affect Your Investment Portfolio (July 2025) U.S. SEC, Investor.gov	Fee types, 20-year fee impact example
Determine Your Risk Tolerance U.S. SEC	Historical stock returns, inflation risk, regular investing
Taking Stock U.S. SEC	Goals, long-term thinking, concentration risk, high-return warnings
Investor.gov Tips for 2026 U.S. SEC, Investor.gov	Definitions, fraud warnings
Mind the Gap 2026 Morningstar	Investor return gap, 10 years to Dec 2025
2025 QAIB press release DALBAR	2024 investor vs. index returns
2026 QAIB press release DALBAR	2025 investor vs. index returns

Sources and further reading

SOURCE / PUBLISHER	WHAT IT COVERS
QAIB methodology DALBAR	Behavioural drivers of the gap
SPIVA U.S. Year-End 2025 S&P Dow Jones Indices	Active fund underperformance rates
The cost of trying to time the market Schroders	Returns when the best market days are missed
Tuning in to the right frequency for rebalancing Vanguard	Rebalancing frequency research

For readers who want to go deeper: Burton Malkiel, *A Random Walk Down Wall Street*; John Bogle, *The Little Book of Common Sense Investing*; Morgan Housel, *The Psychology of Money*. Investor.gov also offers a free compound interest calculator and a Fund Analyzer for comparing fund costs.

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