TOCQUEVILLE

To The Power Of…

BY ALEXANDER STOCK ON *DECEMBER 21, 2021*

Elementary school math classes often begin with the core facets of arithmetic: addition, subtraction multiplication and division. Derivatives come later, in the middle school years: exponents, factorials and PEMDAS[1], show how big numbers can get, quickly.

Coupling this basic math with portfolio management and stock investing can yield attractive results. Specifically, compounding is a focal point of long-only active portfolio management. The secret element is **time**.

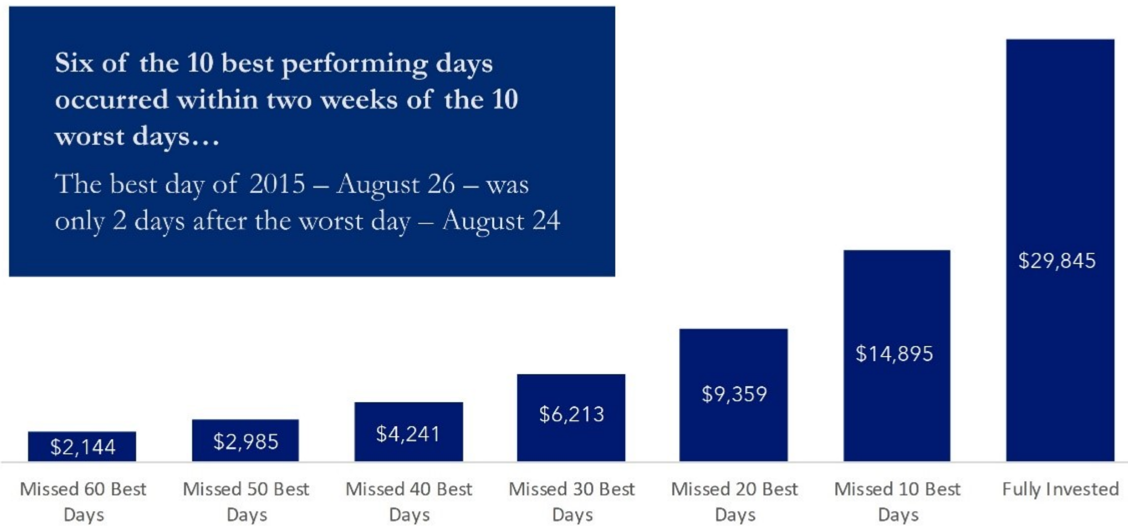
Critically, the younger generation of investors are at the cusp of the largest intergenerational wealth transfer in centuries. 2019 estimates from multiple surveys and sources range between $15 and $68 trillion. Consequently, the *next-gen* are in an ideal position to leverage this element as a resource for the new socially conscious paradigm for which they commonly aspire. But this won't be possible without a collaborative multi-generational planning framework to meet those tangible impact goals.

Uniting investment compounding and multi-generational investment planning can crystalize a sustainable century-long family legacy.

Multi-plication

Staying invested in the market statistically has shown to be one of the best methods to increase the probability of achieving superior investment performance results. A Morningstar analysis showed that missing – defined as taking principal off the table – the best 60 days of the market between 1999 and 2018 would have yielded just 7% of the ultimate upside. In contrast, if one had stayed invested throughout this period, one would have profited nearly 200% on that original investment. See Exhibit 1: Compounding Interests

[1] Order of operations: Parentheses, Exponents, Multiplication, Division, Addition, Subtraction



Note: Returns of the S&P 500 Total Return Index; Performance of a $10,000 investment between January 4, 1999 and December 31, 2018
Source: J.P. Morgan Asset Management analysis using data from Morningstar Direct. 20-year annualized returns are based on the S&P 500 Total Return Index, an unmanaged, capitalization-weighted index that measures the performance of 500 large capitalization domestic stocks representing all major industries.
Past performance is not indicative of future returns. An individual cannot invest directly in an index. Data as of December 31, 2018.

Exhibit 1: Compounding Interests: Einstein's Eighth Wonder of the World

Moreover, the secret sauce, **time** is the foundation of the compounding mechanism. Allowing capital to grow and multiply through the ongoing tick-tock of days, weeks, months and years enables those monies, beyond the original principal, to add to the overall return. They earn interest and accumulate value through price gains. Furthermore, contributing capital to a portfolio or fund or account, on a regular basis, enhances the compounding effect. That supplemental principal increases the base on which interest is earned and can increase the quantity or units of an instrument that are owned. For portfolios, it enables employment of several strategies: dollar cost averaging, buying at a discount to future value, and creating and preserving capital for future generations.

No doubt there are ups and downs in the stock market and frequently, nervous investors order managers to sell in times of extreme uncertainty. Staying put in the market, and *jibing* with market prices can offer both opportunity and a test of firepower and aptitude. However, over time, developing immunity to those unnecessary portfolio *tacks* can clearly add to the performance results, as evidenced by this example.

Multi-generation

The younger generation of investors demands tangible results on everything from plastic reduction in the world's oceans, to the improvement in test scores or grades due to expanded access to after school tutoring programs in underprivileged neighborhoods in the US. However, achieving results cannot happen without a governance framework and resources. The *next-gen* are fast becoming the new stewards of wealth and empowering them with the information, tools and critical analysis skills that made the family business a success will be crucial to ensuring a lasting legacy in the hands of descendants.

Typical Family Office Principles

- Co-identifying and co-setting common objectives
- Sharing in decision making across generations
- Providing professional development for the first generation
- Educating the younger generation about stakeholder values, sustainable business, and leadership

Typical Personal Skills Evident in Multi-Generational Enterprises

- Active listening
- Responsive vs reactive
- Navigating conflict by employing a family council
- Delegation and responsibility to younger members to encourage inclusion
- Re-affirming the path by re-emphasizing the common objectives

Exhibit 2: Family Office Governance

Reinforcing the mathematical concept of compounding can aid the younger generation to connect with the impact that their inheritance may have on people around them and society-at-large. Common mission and ethos setting can acclimate children into the fold of the family business and prepare them to take ownership in order to achieve those social impact goals which they co-set years ago.

Multi-power

Combining math education and family office principles can unify a sustainable century-long family legacy. The compounding effect of money grounded by time is a crucial part of multi-generational wealth planning. Critically, getting into the market and staying in the market for the long haul offers investors the best probability to achieve those tangible key performance indicators all so popular with today's socially conscious investors.

Alexander Stock

Portfolio Manager

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