Time - Its relationship with risk and return

Derrick Dunne & Peter Griffin

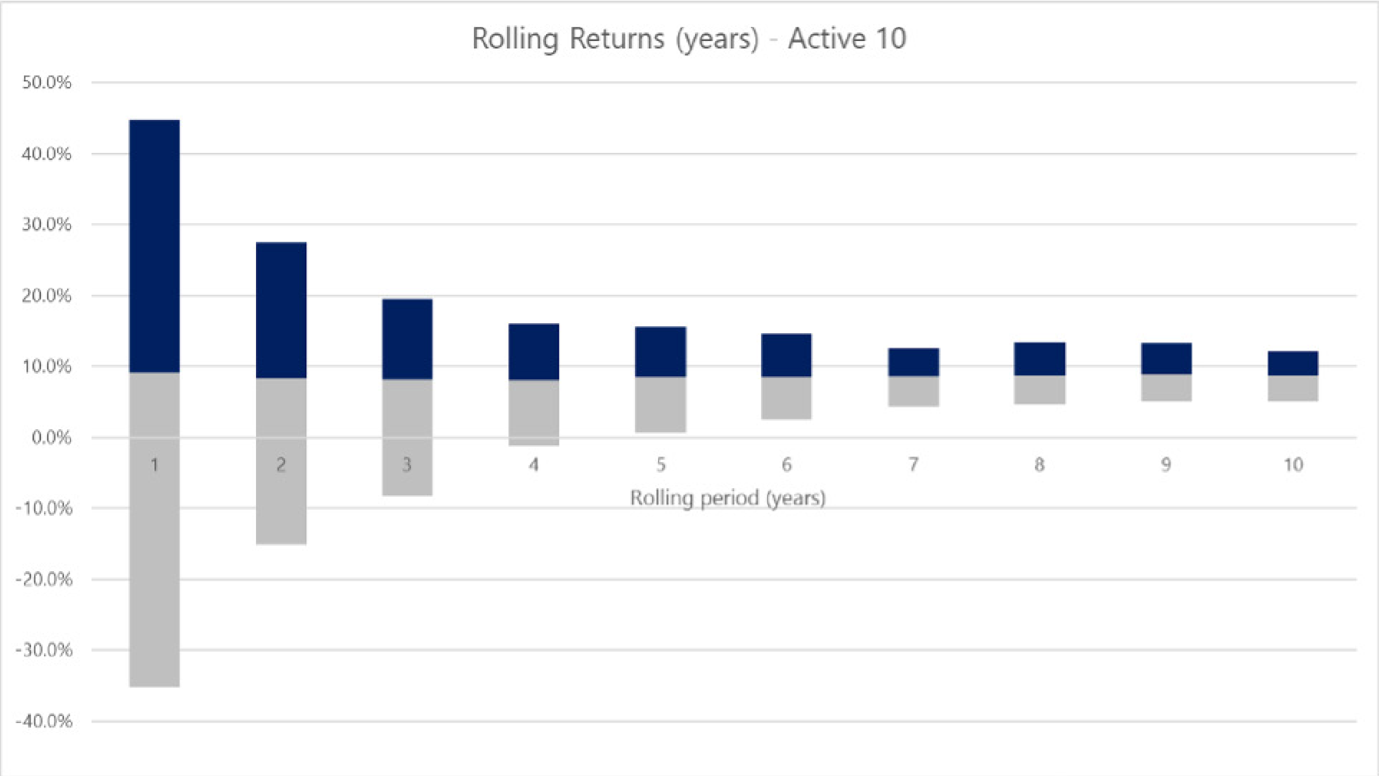
At YOU Asset Management (YOU AM), our mission is to help clients achieve the best possible financial outcomes. Understanding how time interacts with risk and return is fundamental to making informed investment decisions. This guide is designed to support clients, whether establishing or reviewing attitude to risk, or considering a new investment. This guidance should be seen in conjunction with the important goals based financial planning you undertake with your Finli financial planner.

1. Why time matters in investing

Time is one of the most powerful tools in managing investment risk. Whilst returns are not guaranteed, the longer you stay invested, the more you can improve your chances of positive returns.

This is because markets often recover from short-term falls, and long-term investing allows time for the compounding of returns which can work in your favour by growing your investment. This can be seen time and again in the history of the global markets. Volatility is a risk statistic that measures how much an investment's value fluctuates. Over short periods, volatility can be unsettling. But over time, the impact of volatility tends to smooth out.

Our data (from launch in 2004) shows that even in our highest risk model portfolio, Active 10, 73% of quarterly returns have been positive, with most landing between -5% and +5%. This helps set realistic expectations and reinforces the value of staying invested.



Past Performance is not a reliable indicator of future performance.
Source: YOU Asset Management and FE Analytics

Using our highest risk portfolio once again, over our 20+ year sample (from November 2004 to May 2025) we can see the most extreme outcomes soon smooth out as time and compounding take effect. Our study shows that over all of the possible three-year periods in our sample only 6% of those periods showed a fall in value, and this fell to just 2% of observations for four year holding periods. Once you get out to five-year periods and above, there are no negative returns observed over those rolling five-year periods.

2. Risk and return: a balancing act

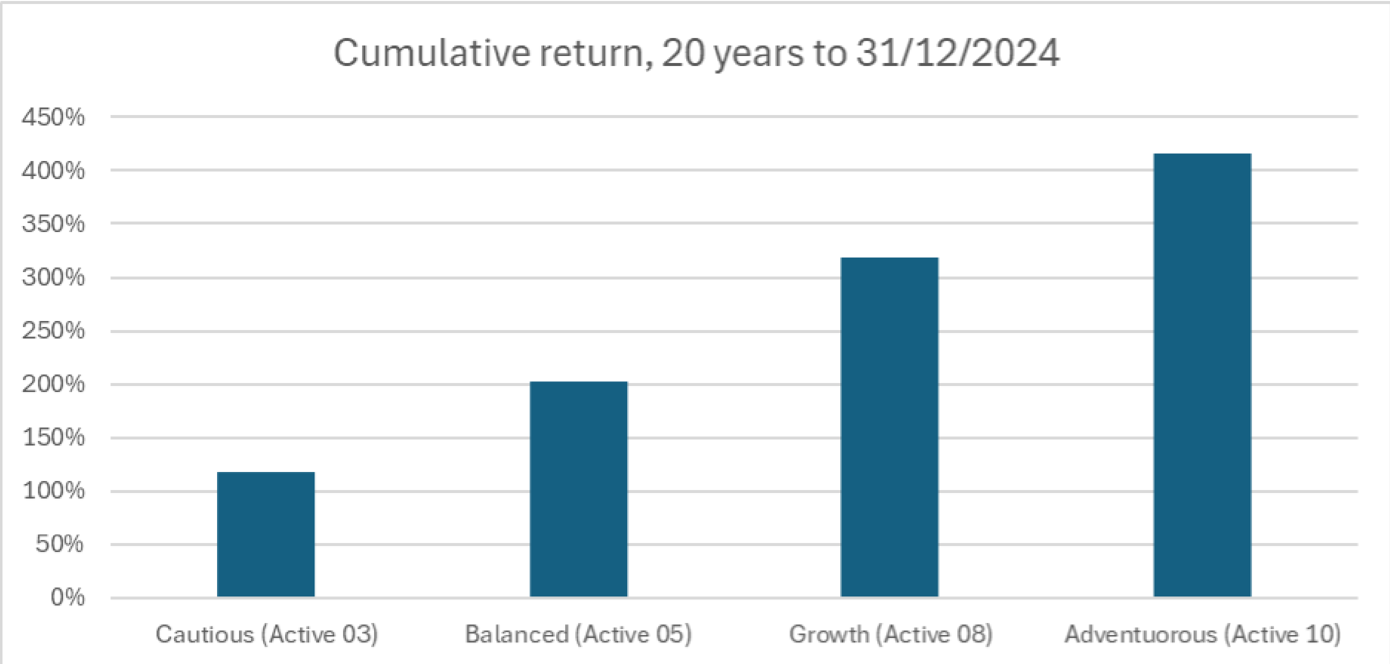
Risk is the possibility that your investment may not perform as expected and you could get back less than you invested. Return is the potential reward for taking that risk. The relationship between the two is not fixed and being prepared and comfortable to weather the journey depends on our time horizon, financial goals, and emotional tolerance.

It is essential to establish a tolerance for loss as part of a financial planning process but this should be considered in the context of the timeframe for each financial goal.

YOU AM's investment process blends qualitative and quantitative research to build portfolios to your agreed risk profile (s), ensuring consistency and discipline. As a client's Financial Plan evolves, it would be expected that the investment portfolio would evolve to match.

As you can see from our Balanced and Growth Funds, over time the return from Growth has been stronger, but there has been a bumpier road to get there. During the Covid slump in early 2020 Balanced fell by 15.3% and Growth by over 21%. In 2025's Trump tariff panic Balanced fell 6.5% and Growth also fell nearly 10%.

Over time these different risk levels can give starkly different outcomes. Below is the cumulative return for 20 years (to 31/12/2024) of our model portfolios for the equivalent Cautious, Balanced, Growth and Adventurous risk levels.



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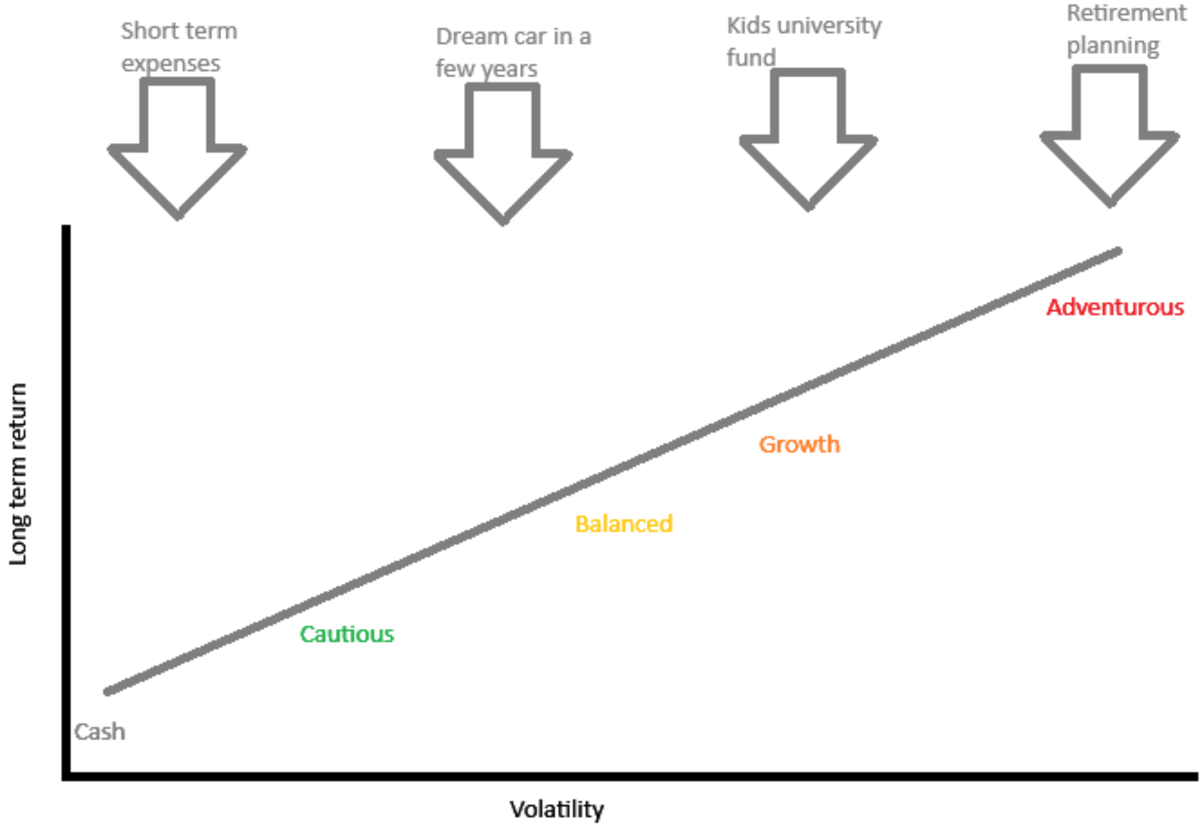
3. Time horizons and suitability

The typical approach by large institutional investors is to increase risk as the time to an objective increases.

This is a very sensible approach for an institution. Your investment time horizon- how long you plan to stay invested -directly influences the level of risk that may be appropriate. For short-term goals (e.g. under five years), lower-risk investments may be more suitable. For longer-term goals, higher-risk investments may offer better returns without adversely affecting the chance to meet these goals within the investment timeframe. This is why we believe it is essential for clients to think about time when completing their Attitude to Risk (ATR) assessments with financial planners.

At the personal level, this is a good starting point and the typical allocation for common financial goals could be as per the table below.



Of course, there needs to be consideration of capacity for loss for each client, and each investment, which would be considered in the ATR assessment. This can be determined and refined between the financial planner and the Client as every client has different priorities and needs.

For an optimal outcome, the individual would behave similar to an institution; stay invested over time in a suitable risk level for each objective.

While accepting that there will be increased volatility with higher risk investments in the short-term, for more distant objectives, this volatility is likely to have less impact, though there is still risk.

4. YOU AM's approach to managing risk over time

All of YOU AM's solutions provide globally diversified, multi-asset portfolios suitable for each client's risk profile. The investment committee brings over 160 years of combined experience, and the main building blocks of the investment process are:

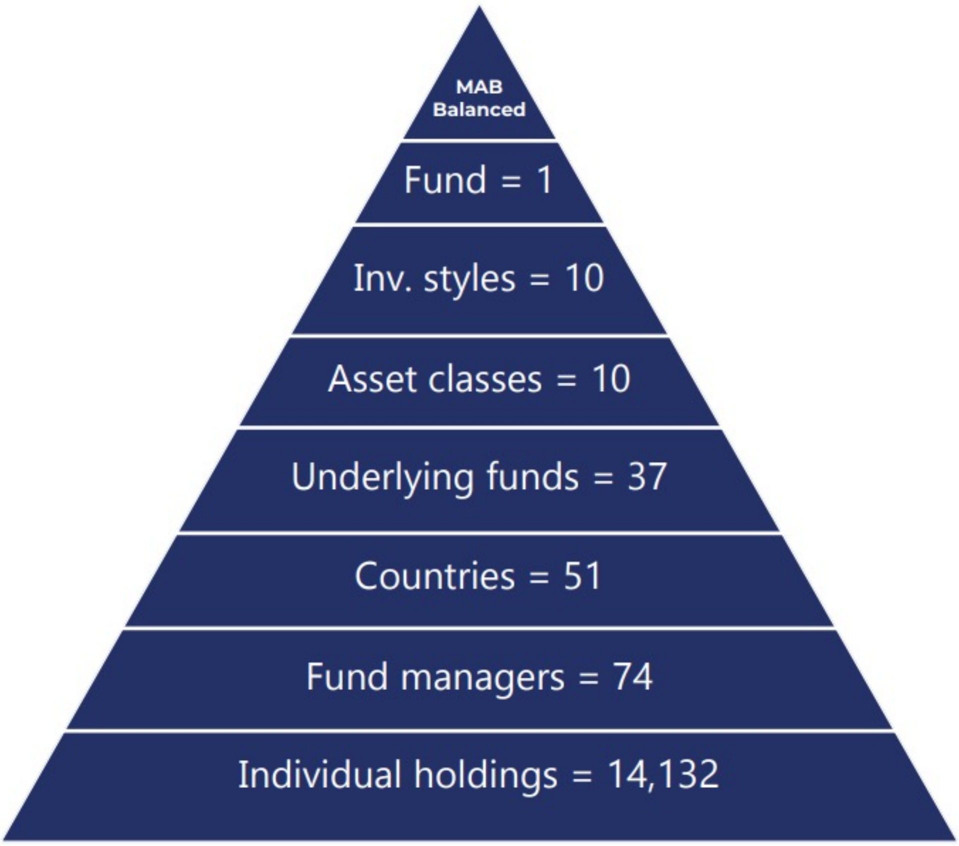
- Strategic asset allocation
- Tactical asset allocation
- Proprietary manager selection and blending
- Ongoing monitoring of all aspects of the Funds and portfolios

While staying the course with any investment is key, if the bones of the strategy are not structured in a sustainable way there may be risks from individual assets, asset classes, styles or regions which can dominate returns. Central to the YOU AM approach to managing risk is maintaining a truly diversified portfolio, whatever the risk profile needed, with no one component able to dominate the outcomes.

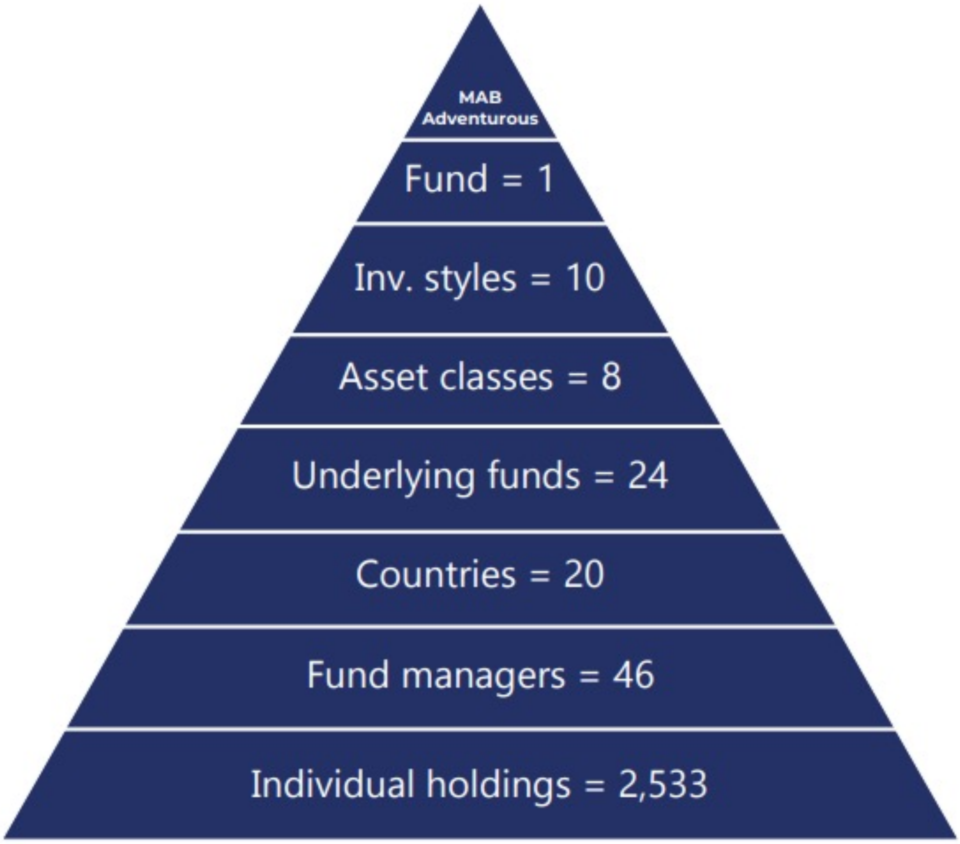
By being well diversified, having a wide range of potential sources of return helps manage the impact of very specific crises or events and can unlock the long term benefits of compounding returns from a diversified portfolio.

You can see the level of diversification employed in a portfolio from how we layer our exposure through different regions, asset classes, fund managers, investment styles and ultimately a very broad underlying portfolio of holdings.

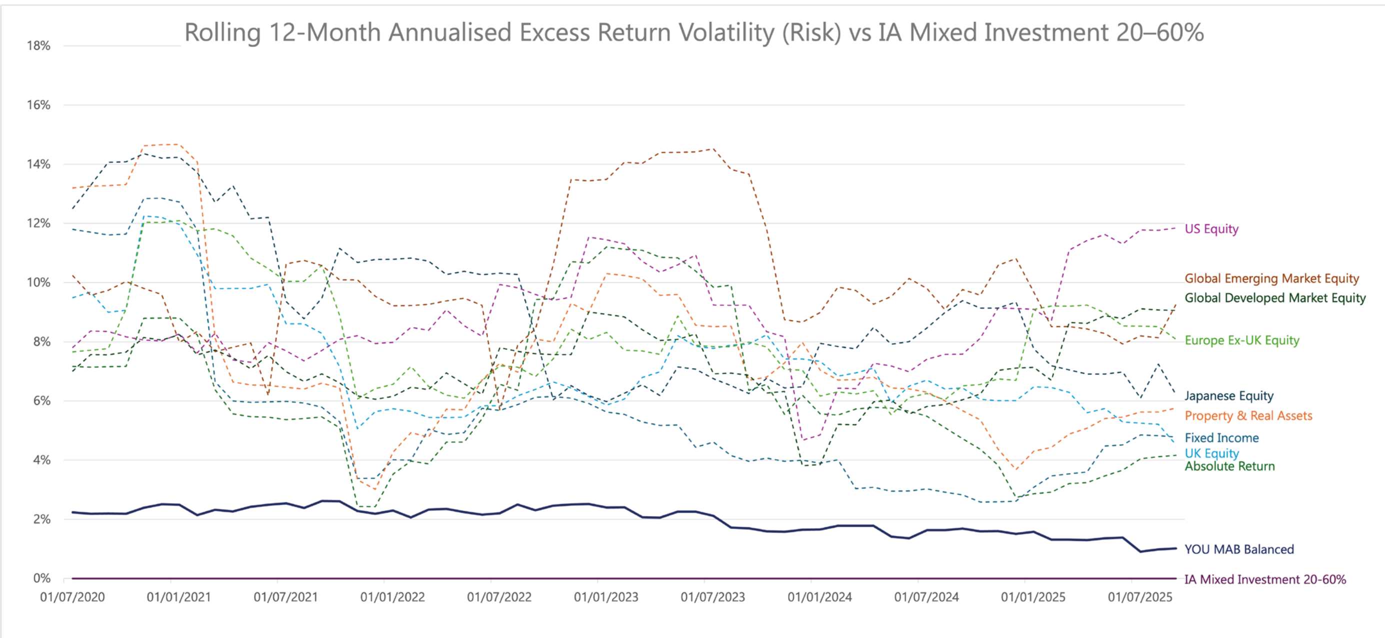
Below we illustrate the make up of the YOU Multi-Asset Blend Balanced Fund as at 30/09/2025. For the Balanced risk profile you can see we blend a wide range of asset classes and express this through multiple investment styles held in a truly diversified portfolio.



Alternatively for clients seeking higher returns, and able to tolerate more short-term risk, the Adventurous Fund holds fewer asset classes across a smaller range of fund managers but still represents a diversified expression of a long-term focussed, globally diversified, equity portfolio.

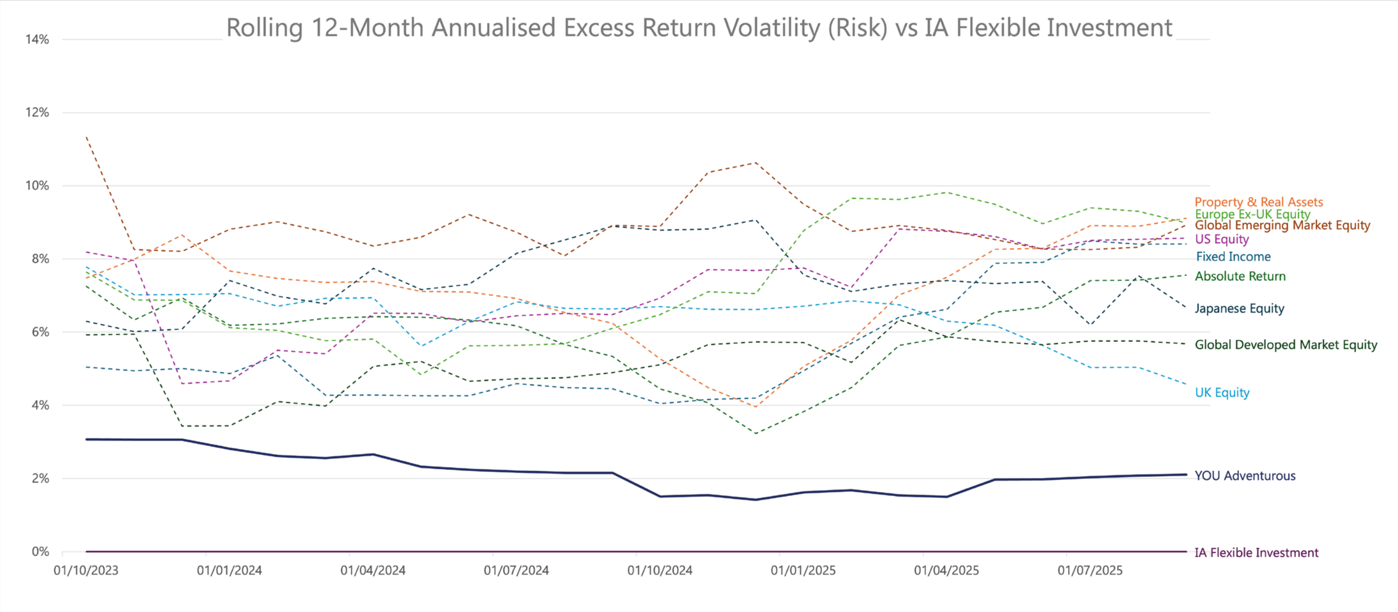


The benefits of diversification can be seen in the chart below. Here we show how returns vary against the Investment Association Comparator Benchmark. The YOU MAB Balanced Fund is shown beside its component asset classes. Investing in the Fund greatly reduces variability of excess returns because of the diversification benefit.



Past performance is not a reliable indicator of future performance.
Source: YOU Asset Management and Financial Express

This also works for higher risk portfolios, albeit against a higher risk Comparator Benchmark. Below we show the same for the YOU Adventurous Fund.



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6. What clients should know before investing

Before making any investment, clients should understand:

- The time horizon required for their chosen risk level
- The potential for short-term losses
- The importance of staying invested through market cycles

Finli's financial planners are trained to guide clients through these conversations, ensuring alignment between willingness and ability to take risk. Once an investment strategy is agreed, a key to meeting objectives is staying the course. Having a regular review with, or simply reassurance from, a trusted partner like a financial planner over an investing journey can drastically improve long term outcomes. Whilst success is not guaranteed, avoiding knee jerk reactions, focussing on the long term and allowing time to take on the heavy lifting will improve chances of investment success.

7. Summary

Time is not just a passive element in the investment journey - it should be a key consideration point in how you think about the risk and return outcomes of your investments. At YOU AM, we help clients harness time effectively, building portfolios that aim to deliver consistent, long-term results allowing you to live your best financial life.

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Please contact enquiries@YOU-Asset.co.uk.