Let time be your ally not your enemy when investing

Dollars & Sense

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Guest Contributor

Time is both your enemy and your ally when it comes to investing. Most investers understand investing in the stock market can be profitable over time but in the short term it can be very risky.

You invest and then all of a sudden an unexpected market decline happens. In some cases, you panic, sell and lose money so you do not benefit from the potential of a market recovery.

Over the last decades, several studies in both Canada and the U.S. have shown an individual's investing results are significantly worse than the underlying market in which they invest.

Individual investers trade at the wrong times for the wrong reasons. The bottom line is over time markets do well; individual investers don't.

The most significant variable between success and failure is time. More specifically the length of time you remain invested.

Bank of America Merrill Lynch collected data showing evidence that the length of time invested is a significant factor for successful investing.

Since 1929, their research from the U.S. S&P 500 Index shows the likelihood of a loss during any one day is 46 per cent. Many investers are hesitant to invest when the chances of a loss are almost equal to the chances of a gain.

Investing requires assessing risk. Why take the risk of investing for one day when you are so likely to lose? If you extend the holding period from one day to one month, the likelihood of a loss declines to 39 per cent. After one year there is a 28 per cent chance of a loss.

The two longest holding periods in the historic data were five and 10 years. The likelihood of loss for those periods was reduced to 11 per cent and six per cent, respectively.

There are several things we can learn from this information. First, investing in stocks is best done when you have a long-term horizon and exercise discipline to resist the temptation to sell if and when the market declines.

If you are unwilling to stay invested during volatile times it is better not to invest at all. Markets will decline at some point. We have 200 years of history to prove that declines do happen on a regular basis.

A problem does occur when you are invested in equities and your needs for that money is short term. Time can be the enemy. An example is someone who is planning to withdraw funds during the next year.

This could be for the purposes of financing a large purchase, paying for the years' retirement living expenses or withdrawing the mandatory annual amount from a Registered Retirement Income Fund. There is a strong case for considering moving funds needed during the immediate future to something safer than equities, which could be a bond or any number of other fixed income options.

The guiding principal to investing is to avoid risk and only assume risk when it is likely to benefit you. Yes, equities have risk. The value of those assets may decline. Take the risks when the reward is worth the risk. The longer you hold equities the greater the chance of success.

Investing in equities is more likely to be profitable when you have time on your side and you can stay invested for the long term.

— Submitted by Peter Watson, MBA, CFP, R.F.P., CIM, FCSI., Certified Financial Planner