

The value of long-term investing

We all wish we could be one of those lucky people who get rich overnight in the stock market. Too bad that doesn't really happen very often. The key to accumulating wealth, according to experts, is buying and holding quality investments over a long period of time, and consistently adding to them.

Buying and holding with annual evaluations means reviewing your plan and looking things over—holding an investment for the long term. “Buy and hold, don't buy and forget.”

Because most declines in the market are only temporary, a long-term investment strategy ensures the best overall return.

It's time in the market, not timing the market!

No one can guess what the right time is to get into the market or the right time to get out. But by being in the market during the ups and downs you're better off. When the market falls, people tend to think, “I got in at the wrong time.” It's not that you got in at the wrong time, but that it might be time to add to those holdings because you can buy at a lower price.

It's good to stay in the market because over time, it generally will come back up. If you decide not to ride the down market and you get out and sit on the sidelines, you'll miss

out. Say the market jumps back up 10%...when you get back in, you've already lost that 10% move. And if you're out of the market and miss the five biggest days in a stock's move, you usually lose about 20% of your portfolio.

Forget about market

Generally speaking, a long-term period is 10 years or longer, a medium-term period is between 2 and 10 years, and a short-term period is 2 years or less.

timing and trying to guess market tops and bottoms. It has been proven time and time again that this simply can't be done over the long term. If you're diversified properly, and rebalanced periodically, you'll never have to worry about “catching” tops and bottoms. Your investment capital always will be in the proper place—poised to catch rallies automatically.

Stock volatility

Stock volatility is the tendency for stock prices to bounce around, going up and down quickly. For example, if stock A is \$50 per share on Jan. 1, drops to \$35 per share by Jan. 7, and jumps to \$65 per share by Jan. 14, we say that stock A is very volatile

Stock investors trade short-term security for long-term returns

A good long-term investment can be a bad short-term investment.

Because of price volatility, a good long-term investment can be a bad short-term investment. How?

Let's say you buy 10 shares of stock in XYZ Corporation in 2007 for \$20 per share. By the end of 2017, (the long-term period of 10 years

or more) the price of the stock is \$50 per share.

So far, so good—as a 10-year investment, the stock did well. But look back and suppose that between 2005 and 2007 (short-term period of two years) the stock bounced around, trading as high as \$30 per share and as low as \$9 per share.

Also suppose that the stock traded at \$17 at the end of 2007—the end of the short-term period.

As a short-term investor in XYZ stock, how would you feel? Since the stock sold for \$17, or \$3 less than what you paid for it, you lost money. Ouch.

If you were a long-term investor who held XYZ stock through the 10 years to 2017 when it was \$50 per share, you would feel much better. You'd have a profit of \$30 per share on the stock. Good job!

The cost of inflation

Inflation is the general rise in the price of goods as time passes.

Think about a hamburger that cost \$3.59 in the year 2005 and now costs \$3.99*. We say that the price of that hamburger was inflated by just over 25%.

Why should you care about inflation?

Two years ago, if you had an investment that earned \$3.59 per year, you could use that money to buy the hamburger. But now, if your investment still earns \$3.59 while the price of the hamburger inflated to \$3.99, you'd be out of luck—no hamburger!

A minimum goal for investors is to keep up with inflation so they can buy the same things as time passes. A better goal is to beat inflation, and have more buying power in the future!

Use an inflation calculator at www.bls.gov/cpi/

** Figures used are to provide an example only.*

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