

Take the Long View, Ignore the Scary Headlines

Written by Rob Copeland
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You've probably been seeing lots of scary headlines lately: the failure of a few banks and the possibility that others will follow suit. A looming recession. The possibility that artificial intelligence threatens the future of humanity.

The only thing that's clear in all of this is that these headlines are getting a lot of clicks. A widespread run on banks? With the crisis being contained to a few institutions, that seems less and less likely. Recession? Investors and business leaders have been predicting a recession since early last year and it hasn't happened yet. If it does, there are indications that it may be mild and brief. As for our A.I. overlords, expert opinion is very divided, and you and I worrying about such a scenario won't accomplish anything.

The media, including social media, loves scary topics because they attract far more eyeballs than benign ones. But many investors do more than just click on the articles. Frightened that their wealth is at risk, they often react by selling. Some have recently pulled all their money out of bank stocks, or even the entire market. But what's interesting is that amid all of 2023's scary headlines, the stock market's up almost 6%.

Scary headlines can be accompanied by bad stretches in the market or good ones. But investors who react to each instance of bad news by buying and selling probably won't make much money over time, and may end up losing money.

The more active you are in the market, the more decisions you have to get right. You have to get out of a stock or of the market at the right time—a hard task because you don't know if the stocks you're dumping will take off the day after you sell. You have to get back in at the right time and, again, hope that the market doesn't tank as soon as you rejoin it. And if you're reacting to the day-in-day-out news flow, you have to be right again and again and again. The odds of accomplishing that, and of earning a positive return over the long term, are very low.

The key to successful investing is using a long-term lens. Research from investment firm Dimensional Fund Advisors has found that the likelihood of an S&P 500 investor losing money declines as period of the investment grows. It found that over one-day periods, the index declines 46%. Over a year, it declines just 26% of the time, and over 10 years, that number falls to 6%. There are always ups and downs within the long term, but the pattern—that the stock market rewards you if you're patient—plays out with remarkable consistency.

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Some investors use a five-year lens. Others a 10-year lens. The right timeframe will depend on your personal factors, including the number of year until your retirement or other goals. This doesn't mean that investors should ignore their portfolio for five or 10 years. There will always be opportunities along the way to fine-tune your investment mix in order to position for the best possible return with the least amount of risk. For instance, bond yields have strengthened significantly in recent months, which may give you an opportunity to lower overall portfolio risk while earning a good return.

It can be hard to be patient and take a long-term view when scary headlines are swirling. It can feel good simply to take action—any action! But in five or 20 years, you'll thank your past self for thinking long-term. Don't hesitate to contact us if you'd like an investment portfolio review.