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Holding Investments for the Long-Term: Time vs. Timing

As the month of June comes to an end, let's take a brief look at what we've discussed so far this month. Overall, we discussed how identifying short-term and long-term planning strategies and financial life goals can help you achieve financial wellness. We also discussed strategies for saving during the COVID pandemic as well as the differences between saving and investing. This week, we will tie it all together with a final word about long-term planning: time vs. timing.

Legendary investor Warren Buffett is famous for his long-term perspective. He has said that he likes to make investments he would be comfortable holding even if the market shut down for 10 years.

Investing with an eye to the long term is particularly important with stocks. Historically, equities have typically outperformed bonds, cash, and inflation, though past performance is no guarantee of future results and those returns also have involved higher volatility.

It can be challenging to have Buffett-like patience during periods such as what we are currently facing with the COVID pandemic, where the market saw an almost 20% decline in less than a month. Times like these can be unsettling for many people. With long-term investments, having a strategy is only half the battle; the other half is being able to stick to it.

Just what is long-term?

Your own definition of long-term is most important and can depend, in part, on your individual financial life goals and when you want to achieve them. A 70-year-old retiree may have a shorter "long-term" than a 30-year-old who's saving for retirement. Typically, however, long-term goals are those with a time horizon of 5 or more years.

Your long-term strategy should take into account that the market will not go in one direction forever — either up or down. However, it's helpful to look at various holding periods for equities over the years. Historically, the longer your holding period, the greater chance you have of experiencing gains.

The benefits of patience

Trying to second-guess the market can be challenging at best; even professionals often have trouble. According to "Behavioral Patterns and Pitfalls of U.S. Investors," a 2010 Library of Congress report prepared for the Securities and Exchange Commission, excessive trading often causes investors to underperform the market.

Another study, "Stock Market Extremes and Portfolio Performance 1926-2004," initially done by the University of Michigan in 1994 and updated in 2005, shows that a handful of months or days account for most market gains and losses. The return dropped dramatically on a portfolio that was out of the stock market entirely on the 90 best trading days in history. Returns also improved just as dramatically by avoiding the market's 90 worst days; the problem, of course, is being able to forecast which days those will be. Even if you're able to avoid losses by being out of the market, will you know when to get back in?

Though past performance is no guarantee of future results, the odds of achieving a positive return in the stock market have been much higher over a 5- or 10-year period than for a single year.

Keeping yourself on track

It's useful to have strategies in place that can help improve your financial and psychological readiness to take a long-term approach to investing in equities. Even if you're not a buy-and-hold investor, a trading discipline can help you stick to a long-term plan. One way to stay on track is to monitor your investments regularly. While this does not mean daily or weekly monitoring, a few times a year or after significant life changes is sufficient.

Another way to improve your psychological readiness for long-term investing is to establish a game plan against panic.

At WHZ, one way we coach our clients is by encouraging them to remain calm despite what the headlines are saying. Our Investment Committee meets on a monthly basis and monitors the markets daily to assess global economic and market performance so that we have the best insight when advising our clients and managing their portfolios. This allows our advisors and clients to focus on aligning a

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unique and strategic financial plan to their long-term goals, and not let a 24-hour news cycle disturb their plan.

We also have a thorough risk assessment so we can determine our clients' risk tolerance. Then, we are able to align their assets and investments in a way that won't keep them up at night.

Finally, we utilize proven academic research in constructing portfolios that are diversified, cost-effective, and tax-aware, with the aim of achieving our clients' individual goals over time.

Current performance may not reflect past results

Don't forget to look at how far you've come since you started investing. When you're focused on day-to-day market movements, it's easy to forget the progress you've already made. Keeping track of where you stand relative to not only last year but to 3, 5, and 10 years ago may help you remember that the current situation is unlikely to last forever.

Use cash to help manage your mindset

Having some cash holdings can be the financial equivalent of taking deep breaths to relax. It can enhance your ability to act thoughtfully instead of impulsively. An appropriate asset allocation can help you have enough resources on hand to prevent having to sell stocks at an inopportune time to meet necessary expenses. Typically, a sound cash savings is around 3-6 months of expenses.

A cash cushion coupled with a disciplined investment strategy can change your perspective on market downturns. Knowing that you're positioned to take advantage of a market swoon by picking up bargains may increase your ability to be patient.

Tell yourself that tomorrow is another day

The market is nothing if not cyclical. Even if you wish you had sold at what turned out to be a market peak, or regret having sat out a buying opportunity, you may get another chance. If you're considering changes, a volatile market is probably the worst time to turn your portfolio inside out. Solid asset allocation is still the basis of good investment planning. At Weiss, Hale & Zahansky Strategic Wealth Advisors, we want you, our dedicated readers, to know that despite the long list of effects that COVID-19 has had, you are still able to achieve your long-term financial life goals. In this case, time is everything; give yourself as much time as possible to let your investments grow and recover. Visit our website for more information about

COVID-19, the CARES Act, and more at www.whzwealth.com/covid19-resources. Also, please call us at 860-928-2341 or email us at info@whzwealth.com with any questions!

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Woodstock, Thompson, Putnam, & Killingly Villager Newspapers. Published June 26, 2020