• 4 MIN READ • RESOURCES

FWIW's Guide To The Rewards of Long-Term Investing

In today's era of meme stock trading frenzies, you might think "long-term investing" sounds about as hip as watching cable TV. But while a stock tip from a Reddit day trader could pay off in the short term, regular readers know that FWIW often reminds you that financial experts consistently recommend you take the "Longview" when it comes to your investment portfolio. We will break down some of the reasons for this perspective and why it might be the right recipe for you.

First, what does long-term investing really mean? You'll find a different definition everywhere you look. Some (like the IRS) say it means holding onto an investment for longer than one year, while others mention a 10+ year time horizon. The exact time frame can vary, but at its core, it's an approach that involves riding out market ups and downs to achieve stronger returns over time and we like to think in a 5-10 year timeline.

Taking the long view is not only just about planning for your financial future; it also aligns with many of the longer-term focused goals that values-aligned investors bring to the table. Think about it: whether you are interested in investing in companies that prioritize sustainability, have diverse corporate leadership, or align with your faith, these changes are going to take time to come to fruition and will require the patience associated with long-term investing. In short, it takes a long-term commitment to make a better world. And as an added bonus, the mindset can also lower your anxiety when the market is bouncing up and down like a yo-yo.

The financial payoff of long-term investing

Can holding onto solid investments for years result in stronger financial outcomes over time? While past returns are no guarantee of the future, history shows the benefits of this approach and this historical performance is what drives most of the experts' recommendations.

For example, the S&P 500 returned an average of 11.82% each year between 1928 and 2021. Yes, there are some down years mixed in there, but overall the stock index posted positive returns for investors over most 20-year time periods, according to Investopedia.

An analysis by J.P. Morgan found that staying fully invested in the S&P 500 between April 2002 and April 2022 would have yielded a 9.10% return, compared to 4.92% if you missed 10 of the best days for the market during that time period (say because you got spooked and sold investments too early). And if you missed the 30 best days, your return would be a paltry .04%. This chart gives a great visual.

Financial experts point out that long-term investing also cuts down on transaction costs since you're not buying and selling as frequently. And you'll lower your tax bill, paying a capital gains tax on investment returns of 0%, 15%, or 20% depending on your income. In contrast, short-term investments held for less than a year are subject to an investor's top marginal tax rate, which could be as high as 37%.

And, let's not forget the virtues of compound interest. When you reinvest the earnings received from stock dividends and interest, you ratchet up your profit potential. (Psst, our article on dividend stocks goes deeper into the power of compounding dividends.)

Sustainable investing creates enduring value

The long-term mindset that is recommended by financial experts for all ages, but in

Subscribe

particular for younger investors, also tends to sit well with sustainable and socially-conscious investors. In a recent survey by Schroders, more than two-thirds of "expert investors" believe sustainable investment is the only way to ensure profitability in the long term.

What's the draw? For one, companies that prioritize environmental, social, and governance issues (versus a singular focus on quarterly profits) can be perceived as less risky. And there is a growing body of research making it clear that companies with a long-term business horizon have higher and more stable revenues, company earnings, and market capitalization — both in the short and long term. These companies are also more able to identify and commit ample resources to strategic moves, which keeps them competitive... all signals that many investors are looking for.

Subscribe

Also, while game-changing solutions to issues like climate change may take years to take hold and turn a profit, focusing on the issues that you value may position you well when these solutions come online. Imagine buying Tesla stock when the company went public in 2010, before electric vehicles gained widespread popularity. Your investment would have increased by more than 17,000% at this point.

Granted, one stock does not make a trend, but as you think about the companies and sectors that will show steady growth in the coming decade(s), consider this: Gen Z and Millennial consumers prefer sustainable brands. There can be benefits to aligning your investment strategies with future-forward companies catering to younger generations of consumers and with innovations and commitments to areas that you see as aligning with your vision of what the world should look like. According to this financial planner, the fundamental trends driving sustainable investing are more likely to endure.

A calmer approach to investing

Make no doubt — the long-term approach recommended by experts requires discipline and patience. You have to get comfortable taking on a certain amount of risk for higher growth potential, and avoid the temptation to make emotional decisions. But that mindset can help you get through volatile times.

Watching the daily ups and downs of financial markets is enough to make any investor's stomach flip, especially in these turbulent times. But, as CNBC recently reminded us, investors who keep their cool during bear markets tend to make out alright.

Interested in next steps? While there are a number of directions you can go, great places to start your research include our list of ESG and sustainability-focused mutual funds and ETFs, this run down of steps to consider as a faith-based investor, or our guide to gender-lens investing. Or, if you are interested in researching specific sectors that you think will be leaders if you take a long-term view, check out our deep dives into a wide range of sectors, including: batteries, hydrogen, reducing plastic pollution, wind, sustainable cooling, solar, and biofuels. Whatever your interest, FWIW has your back... for the long-term.

Published by:

SHARE TWEET

You might also like...

OCT 20 The FWIW Guide to Cleantech Investing: Sectors to Watch 26 min read

MAY 19 Decoding The ESG Framework Market 4 min read

APR 20 Largest ESG or Sustainability Focused Funds 1 min read

FEB 01 Unpacking the ESG Alphabet Soup 2 min read

JAN 20 Nerd out with us — what we're reading & watching 4 min read