Benefits of Long-Term Investing

One of the main concerns for any type of investing is market volatility. Volatility measures the degree to which prices change over time. Another way to think of volatility is in terms of price swings. The greater and more frequently an investment's price swings, the higher its volatility. Investments with high volatility have a high degree of risk because their prices are unstable.

It is important to note that short-term volatility is not necessarily indicative of a long-term trend. A security can be highly volatile on a daily basis but show long-term patterns of growth or stability. Some investments may maintain purchasing power over time, but can fluctuate wildly in the short term.

The advantage of long-term investing is found in the relationship between volatility and time. Investments held for longer periods tend to exhibit lower volatility than those held for shorter periods. The longer you invest, the more likely you will be able to weather low market periods. Assets with higher short-term volatility risk (such as stocks) tend to have higher returns over the long term than less volatile assets such as money markets.

Staying invested in the market over the long term has historically paid off.

It is very difficult and risky to time the market. Many people panic when they see reports of a falling stock market. However, staying invested in the market over the long term has historically paid off. Although short-term fluctuations seem random, the stock market tends to reflect the overall growth and productivity of the economy in the long run.

Putting your money in long-term rather than short-term investments also provides tax advantages on capital gains. Often long-term gains (those held over 12 months) are taxed at rates below your income tax bracket. Short-term gains, on the other hand, are taxed as regular income.

Long-term investing might also save you other expenses, such as transaction costs from active trading. Certain mutual funds may defer sales charges if you hold your shares for a long period.

There are many reasons for you to invest for the long term. Saving for retirement or a college education, for a future house, or to provide funds for the long-term care of your parents are all common goals of long-term investing.

Once you decide to become a long-term investor, you'll need to choose some investments and strategies based on your risk tolerance and desired returns—investments such as growth stocks and long-maturity bonds as well as strategies such as buying and holding, and tax sheltering. Finally, before you decide to make a long-term investment, you must keep in mind that along with its benefits come the drawbacks of limited liquidity and increased business risk.