Finance for Life™

Achieving Financial Success™

Finance for Life. Wealth for Living.™

Practical Wealth Creation Ideas

...for Simplified Financial Success™

Financium®.com

The Dos and Dont's OF BUY-AND-HOLD INVESTING

When it comes to 'Buy and Hold' investing

Do invest patiently

The term "buy and hold" relates to an investing strategy of buying securities with a good long-term outlook for capital gains. A long-term equity investor is one who waits patiently for capital growth, while holding his or her stocks (or stock funds) for long periods of time, waiting for their gains to accrue favourably. If you are in pre-retirement, make sure your equity portfolio is balanced against the potential risk of another major market decline by investing in some non-equity funds (money market; balanced and/or bond funds).

Don't expect markets to always boom

Investors who "buy and hold" realize that it is important to control their feelings because all stock markets will inevitably display more volatility over short-term periods. There is a cycle of ups and downs in the world of business referred to as the business cycle. Stock markets will never rise or fall forever. A fund investor who does not have the persistence to stay invested, may sell when the market goes down, defeating the mandate to achieve growth. Buy and hold growth is only achievable by longer periods of commitment allowing equities to increase their price valuation, regardless of the peaks and valleys of business cycles.

Do get the help of professional fund managers

Through business cycles, psychological fears, and certain imbalances such as the 2007-2008 sub-prime mortgage debt crisis affects the stock market and equity fund unit prices. We can never truly predict when the market will gain or lose. Therefore, the long-term investor in equity funds (holding stocks) allows only the best fund managers to take care of buying and/or selling quality securities. The foresight to buy securities with the potential to gain over the long haul is the skill-set of professional fund managers. Some good funds that an investor may buy to hold, may trade stocks held within that fund in order to achieve the best possible gain during any market turbulence. A proactive manager takes careful note if the market loses seven or ten percent of its value rapidly, or when the capitalization of any stock market is below its fifty day average. They can monitor the situation and will take the necessary action to reduce a fund's loss through internal day-trading.

Don't sell when the market is down

Normal short-term volatility can negatively affect the value of one's portfolio if an investment fund is sold by an investor when unit prices have dropped during a correction. The value simply is lost. If the market takes off again and one is unvested, gains cannot accrue. For this reason the disciplined investor takes some risk to hold on to investments during a market downturn to a degree. The crash of 2008 revealed that there is a point when a decision must be made to transfer funds to money market funds and wait for the market to rebound back to a confident bullish phase. Inquire to ask about fund managers who apply this strategy within a fund. Good stocks can regain their values and continue to grow though short-term fluctuations occur due to periodic market correction.

Please seek professional advice prior to investing. Where mutual funds are considered, please read the funds' prospectus before investing. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments which are not guaranteed; their values change frequently and past performance may not be repeated. Any indicated rate of return is for illustration purposes only and is not intended to reflect future values of returns on investment. Financium, the publisher does not guarantee accuracy of information, and will not be held liable in any way for any statements or statistics in this publication, though we seek to present reliable, precise and complete information. Written permission of Financium who retains all rights, must be obtained prior to any reproduction. ©Financium. email: admin@adviceon.com [03/01/10]