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Long-Term is Longer Than You Think

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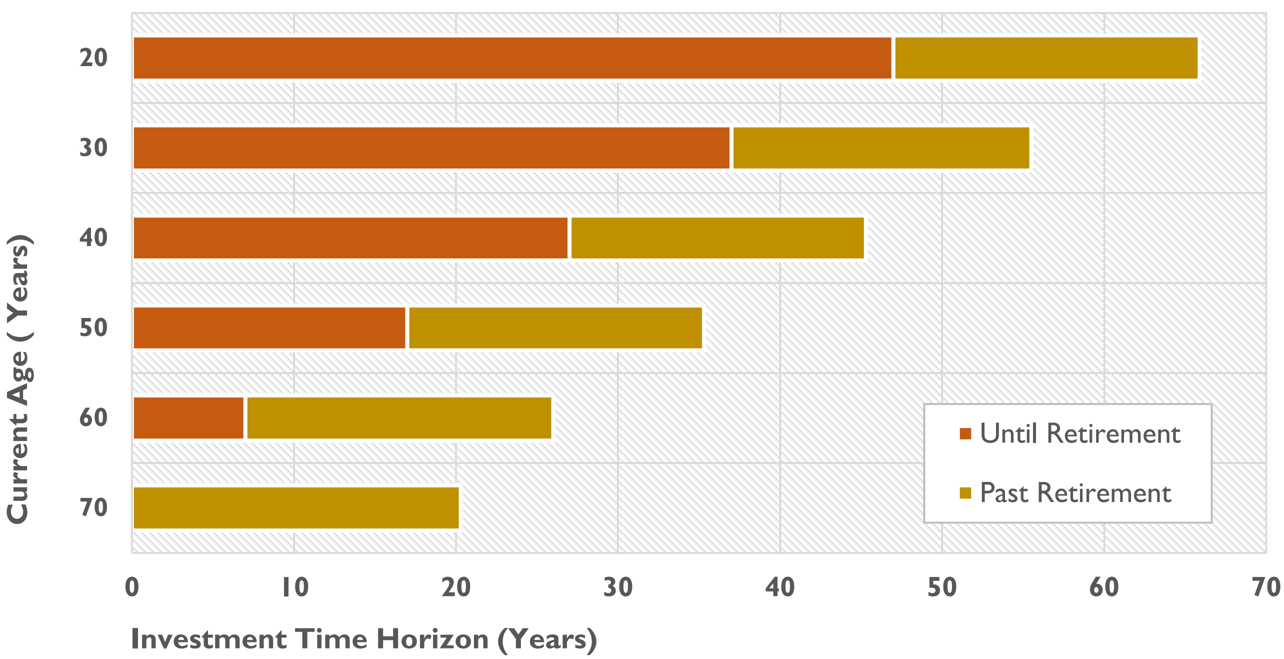
Investment time horizon is a critical concept in building wealth. Most investors have very long investment time horizons, typically decades or more. Investment managers also require long time horizons to deliver on their investment thesis. Finally, stock market volatility diminishes substantially over time, with a 75% decrease in variability for 10 years versus one year. As a result, developing patience and a long-term perspective are key to building wealth. We are living longer and need to invest appropriately. Even at age 70, the investment time horizon is more than 20 years.

INVESTMENT TIME HORIZON BASED ON AGE AND LIFE EXPECTANCY



Source: SSA, Life Expectancy Calculator (https://www.ssa.gov/planners/lifeexpectancy.html)

The table shows the number of years until retirement and the number of years past retirement for different ages, based on life expectancy and retirement at age 67. Successfully funding a long life into retirement requires consistent action, which includes making regular contributions while working and staying fully invested. Even in retirement, it remains important to stay adequately invested in growth-oriented investments. The focus on short-term investment performance and the associated micro-management of portfolios is counter-productive to building long-term wealth.

Investing is a long-term exercise that requires patience and stamina. Unfortunately, we are hardwired to react to our emotions in the present at the expense of our future selves. With planning, separating out short-term cash needs from long-term investments can help to avoid emotional short-term bias. Like becoming a marathon runner, becoming a long-term investor takes time, effort and discipline. The challenge is not to find better investments, but to become a better investor.

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From the Behavioral Viewpoint

What is going on?

1. **Availability bias** in the form of daily market returns, monthly performance fact sheets, quarterly statements, annual reviews and taxes all create constant emotional stimulus. Processing these emotions is exhausting and the need for relief overpowers our logic and often results in poor decisions.

2. Short-term volatility and performance reporting generate strong emotions in the form of **myopic loss aversion**, the resulting conservatism can drive us away from long-term growth investments.

3. With **fallacy of control**, we attempt to micro-manage long term investments as a series of short-term activities, seeking to manage ten 1-year investments, rather than one 10-year investment. This usually ends up in performance chasing, buying and selling the wrong investments at the wrong time.

4. **Delayed gratification** requires a conscious effort to trade off a current benefit for some long-term value, the benefit of becoming a better long-term investor comes years down the road.

What can we do?

1. Use needs-based planning to separate short and long-term needs along with developing a systematic way of assessing and replenishing short-term needs.

2. Build a strategy diverse portfolio of active managers for long-term growth and plan to be invested in them for decades. Simple idea, but not easy to do.

3. Tune out the noise by limiting the amount of time and information you get on the market.

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