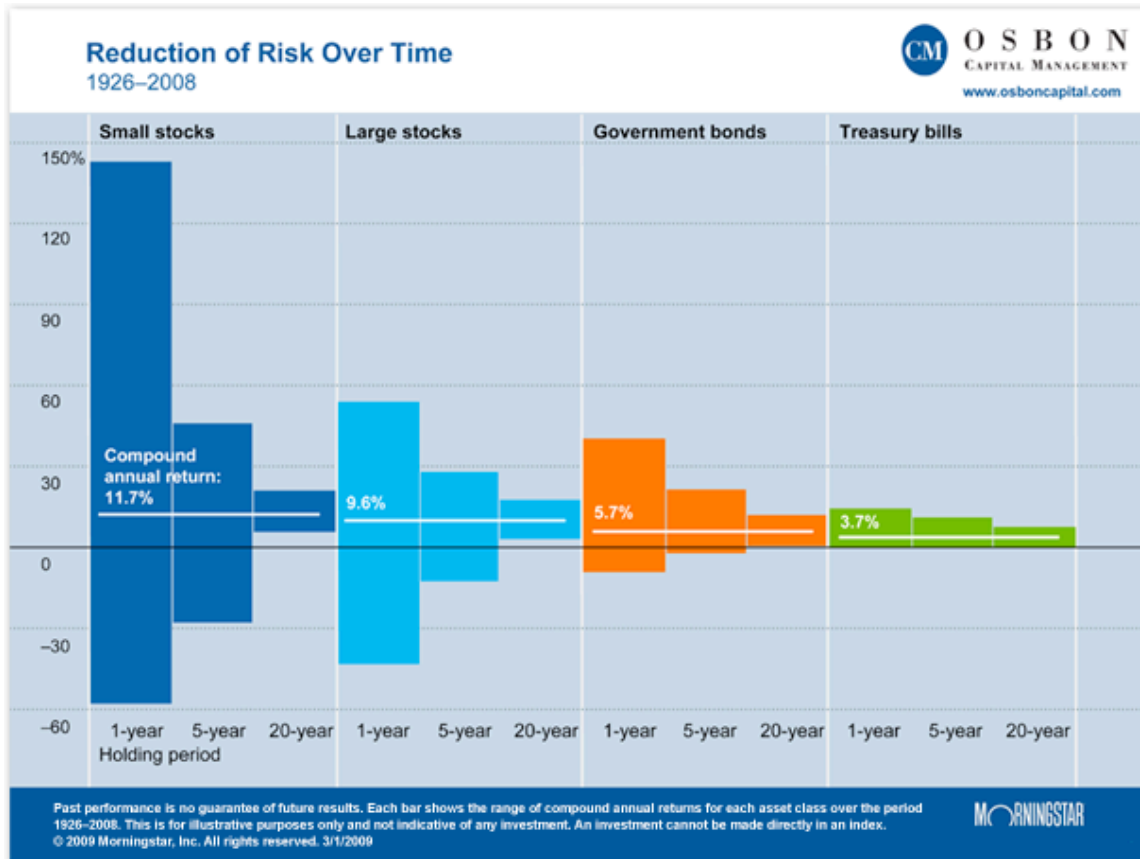




Quick Q & A #8

Q: Why is time your best friend?



A: Longer holding periods historically mean less risk.

The power of compounding over time is well known, but time can also foster another important benefit for investors – less risk.

Based on empirical data, the longer assets are held, the narrower the range of returns. As the graphic depicts, the volatility (risk) of returns over 5- and 20-year holding periods is much less than when securities are held for only a year – especially for stocks. For instance, the 20 year compound annual returns of large stocks range from +3 to +18%, while one year returns have been as disparate as -43 and +54%.



Holding securities for the long term is central to our investing approach. We advocate diversified portfolios of index investments that represent a wide range of asset classes, held for years, not months. We reject market-timing, stock-picking, and other short-term approaches to “beat the market.”

Read more: [More Quick Q&As from Osbon Capital Management](#)

Next time: What does “diversified” really look like?

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This Q&A contains general information that is not suitable for everyone and should not be construed as personalized investment advice. The historical data presented herein are for informational purposes only and do not reflect actual client accounts.

Small-company stocks in this example are represented by the fifth capitalization quintile of stocks on the NYSE for 1926–1981 and the performance of the Dimensional Fund Advisors, Inc. (DFA) U.S. Micro Cap Portfolio thereafter. Large-company stocks are represented by the Standard & Poor’s 500®, an unmanaged group of securities and considered to be representative of the stock market in general. Government bonds are represented by the 20-year U.S. government bond, and Treasury bills by the 30-day U.S. Treasury bill. An investment cannot be made directly in an index. The data assumes reinvestment of all income and does not account for taxes or transaction costs.

Any historical returns are not net of advisory and/or other fees and expenses. Past performance is no guarantee of future results. There is no guarantee that the views and opinions expressed in this Q&A will come to pass. Investing in the stock market involves gains and losses and may not be suitable for all investors. Information presented herein is subject to change without notice and should not be considered as a solicitation to buy or sell any security.

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