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MARKET MATTERS: Do you own or rent?

By Joseph Matthews

Published Sunday, March 11, 2018

Most of us have been asked this question in one way or another about where we live. That aunt or uncle you see every few years at a family get-together may have posed it to you. It could have been on a loan application. Or it might have been that person you just met who takes the liberty of asking a whole bunch of questions you have no interest in answering.

With over 22,000 points of up and down moves in the Dow Jones Industrial Average in early February and short-term interest rates at the highest levels since the financial crisis, it makes a whole lot of sense to ask this question about your portfolio holdings: do you “own” or “rent?”

Recent studies show that the average holding period for a stock that trades on the New York Stock exchange is approximately eight months - shorter than any time period since the 1920s. Back in the 1960s investors were holding stocks on average for over seven years! Seems like there has been a sea change in the way individual and institutional equity investors behave — not like owners, but more like renters with the short term in mind.

Reflecting on why an investment is in your portfolio and the purpose of the overall portfolio always seems to help investors get through times like the ones investors have experienced year to date. At the beginning of the year, we experienced a market melt-up with some indices at one point up over 7 percent — only to be followed by the worst week the Standard & Poor’s index of 500 stocks has experienced in the last few years. Because this downturn wiped out most investments’ year-to-date gains, many investors may be questioning the validity of their long-term investment strategy.

The cause of this type of doubt after a difficult market period is typically the emotion, fear. Earlier this year, undoubtedly, that other enemy of investors, greed — fear’s cousin in crime — caused some investors to make ill-timed portfolio changes based on information irrelevant to their long-term success. It’s been a heck of a ride on the emotional roller coaster for most of us and hopefully one that we can learn from and successfully get through.

While nobody likes to see the value of his or her portfolio decrease, successful investing requires keeping your eye on the prize. As an example, if funding retirement is one of your financial goals, it's important to remember you need to accumulate wealth. The same typically goes for funding a toddler's college education. Because of this need to accumulate wealth, taking prudent risk in a manner that is definable and repeatable makes sense.

Just like owning a home, equity ownership comes with its struggles.

Stocks, as measured by the S&P 500, historically have gone down 2.5 times faster than they go up, and have exhibited twelve-month returns somewhere between negative 35 percent and positive 55 percent.

Other types of stocks, including smaller U.S. companies and all of the U.S. markets' international counterparts, experience even greater levels of volatility. They're certainly not for the faint of heart. That being said, they have proven themselves as a viable option for investors to consider to accumulate wealth over long periods of time.

By maintaining your portfolio in a manner consistent with your personal tolerance for risk, investment time horizon and need for liquidity, your ability to act like an owner and build net worth can increase. Otherwise, you might be throwing your hard-earned savings out the window.

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