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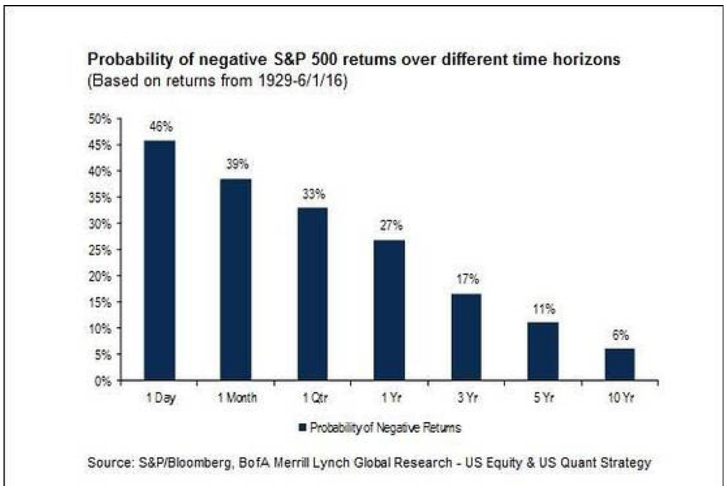
Aha! The Case for 'Buy and Hold' Investing

This chart from a financial adviser shows the decreasing probability of a negative return in the S&P 500 based over ever-longer time horizons



Steven Podnos, principal at Wealth Care LLC, uses this chart of S&P 500 returns to show clients the greater likelihood of positive returns the longer an investment is held.

By **DAISY MAXEY**

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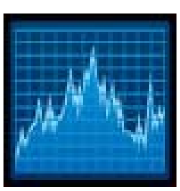
This is an occasional feature in which an adviser shares a chart or other visual presentation that he or she finds valuable to help clients grasp an aspect of personal finance or investing.



The adviser: Steven Podnos, principal at Wealth Care LLC in Merritt Island, Fla.

The chart: The bars show the probability of a negative return in the S&P 500 over various periods—from every day to 10 years—from 1929 through June 1.

The reason it is useful: Mr. Podnos says he shows clients the chart to illustrate the increasing likelihood of making money in the broad stock market the longer someone stays invested.

Behavioral finance finds that people hate losing much more than they enjoy winning, he says. So to keep his clients in a positive mind-set and avoid the emotional decision-making that can be detrimental to a portfolio, he aims to deter them from checking performance frequently because of the greater chance of negative returns over short periods.

"Over a short period of time, you're almost as likely to have an up market as you are to have a down market," he says. "If you can wait five years, then about 90% of the time, you're up in every five-year period. You're going to be pretty happy."

Yet he knows it isn't feasible to ask clients to check performance once every five years, and he says that isn't his goal.

"I have a couple of clients who know every day what their portfolios are worth." Rather, the goal is to try to wean clients from looking at their portfolios every day, he says. "It will just make you feel bad or make you make mistakes."

"I actually look at my net worth once a year," he adds.

Those who plan to invest in stocks should have at least a 10-year time horizon, Mr. Podnos says. For clients who ask where they can get the best returns on money they'll need or want within the next few years, he gives advice that many consider surprising: Put it in a certificate of deposit.

"They always kind of look at me and say, 'CDs are paying 1%,' I say, 'Yeah, but you'll get your money back, plus 1%,' " he says, pointing to the stock-market rout during the financial crisis. "If it's another 2008, and you invest in the stock market, you're not going to be happy having 30% less."

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