Could This Trick Boost Your Portfolio Returns?

Description

While there are various things which could improve your portfolio returns, there is perhaps one idea which would benefit the most people to the greatest extent. It calls for no major sacrifice and has no additional monetary costs. Furthermore, this simple trick has been around for a long time and is utilised by many of the world's top investors, including Warren Buffett.

The idea is that when buying shares, investors should imagine that the stock market will be closed for the next five years. This should have a positive impact on an investor's decision making for a number of reasons.

Firstly, an investor who knows they cannot sell a share for at least five years is likely to not only consider what a company is doing right now, but where it could be in five years' time. In other words, it forces an investor to not think about today, but consider how a company's operating environment, product stable and financial position will look in the long run. This could lead to more detailed analysis which has the potential to spot flaws in the company which shorter term investors either ignore or fail to see, since they are likely to be more concerned with the near term.

Secondly, investors who think that the stock market will close for five years will be forced to hold on to shares for the long run. This should provide a company with the time it needs to put its current strategy into action. Across the business world, things move slowly. Cost reductions take time to process, new products take even longer to come to market and impact earnings, while recessions and boom periods can impact operations for a number of years. Since shares are parts of businesses, holding them for at least five years should allow the potential spotted by an investor before purchase to come to fruition.

Thirdly, holding shares for at least five years also means that an investor with paper losses will be forced to adopt a more patient mentality. Many of the best investments made in history have not always been in profit, but by sticking with them during difficult times it is possible to generate high realised returns. Similarly, some investors can sell out too soon when in profit. While banking a high return is always satisfying, in many situations it is a good idea to let winners run.

Clearly, the idea that shares must be held for a minimum of five years is rather obvious and extremely simple. However, the effect it has on investors could prove to be much greater and more important. It could boost your portfolio returns, provide peace of mind during difficult times and lead to greater stability in your portfolio's valuation.

CATEGORY

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Date
2025/09/10
Date Created
2016/12/08
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