# 3 Investment Lessons to Pass On to Your Children

## Description

Passing investment lessons onto children is fraught with difficulty. After all, the investment landscape is always changing and the challenges faced from an economic perspective by one generation will usually be different than those encountered by the next. However, there are three general principles of investing which are likely to be just as relevant in future as they are today.



## Margin of safety

Perhaps the most important aspect of investing is seeking a margin of safety. This is where a company's shares trade at a discount to their intrinsic value. It means there is potentially less downside risk and the scope for a considerable upward rerating in future. This means the company in question could have a relatively enticing risk/reward ratio, which could boost overall returns in the long run.

Of course, predicting the future is exceptionally challenging for any investor. Inevitably companies, industries and economies will all experience difficulties at one time or another. Through buying shares with wide margins of safety, it may be possible to outperform the wider market not only in such difficult periods, but also during times of more prosperous economic performance.

## Time period

In recent years, the popularity of long-term investing seems to have declined. Many investors appear to favour trading shares, rather than buying and holding them for the long term. While this can mean quick profits and a degree of excitement which may not always be present in long-term investing, it can also mean high risk and high losses.

As such, it seems prudent to pass onto the next generation details of the benefits of long-term investing. Investors such as Warren Buffett have been able to amass great fortunes simply by identifying companies with competitive advantages and holding their shares for a number of years. And with the effects of compound interest added to the mix, an annual return of 8% may be sufficient for anyone to build a large portfolio over a multi-year period.

## Focusing on valuation

While valuing a company is subjective, the process of doing so can allow an investor to unearth potential opportunities to profit. Certainly, impressive earnings performance or a sound strategy may cause share prices to rise in the short run, but in the long run value investing has been shown to deliver above-average returns. Therefore, the benefits of focusing not only on the quality of a business, but also its valuation, may be a useful lesson to pass onto the next generation.

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