What's Considered "Real" Long-term Investing These Days?

Description

The horizon for "long-term" investing has shrunk noticeably over the decades. Before the rise of the internet, stocks required a considerable amount of effort to trade, without today's convenient access to virtually any piece of financial data you need to make an instant decision. As a result, the average holding period of stocks in the 1960s was eight years. Today it's just a few months!

Most investors consider themselves long-term thinkers with a horizon of just three years. That would be a substantially longer holding period than the average, after all. Indeed, that's what the new long-term time horizon is currently, when the average investor has a wealth of actionable information on virtually any stock on their radar.

Moreover, with the FOMO (fear of missing out) mentality in the air of late, it's become as difficult as it's ever been to remain a truly long-term investor, which I'd define as someone who intends to hang onto their stocks for at least a decade. With a wealth of commentary at your disposal, it's difficult not to want to take action after every single quarterly report. Although you may think you're improving your longer-term returns, the only person you're actually making richer is your broker.

While there are potentially detrimental developments that could derail your long-term thesis, such developments are usually focused solely on the short-term picture and mean little to nothing in the grand scheme of things.

Making rash decisions on your long-term investments based on shorter-term events is never a good idea, especially given that most developments are completely forgotten about by the general public in just a matter of months, or, in some cases, even weeks after the stock changes hands and comes full circle.

Today's trading activity has opened up entry points for opportunistic investors who can tell the difference between short-term noise and meaningful developments.

Consider **Spin Master Corp.** (TSX:TOY) a company whose top toy, Hatchimals, was found to be malfunctioning in the midst of the 2016 holiday season. Many children woke up Christmas morning to unwrap their must-have toy of the season only to find out that it wouldn't hatch – the main selling point of the toy!

Many angry parents then took to social media to express their frustration, and a class-action lawsuit soon followed. At the time, Hatchimals was the one hot product that was the “make or break” stock at the time. Following the unfortunate Christmas news, the stock plunged, causing shares to decline over 20% from the peak.

You’ll never believe what happened next.

The lawsuit was dismissed and the stock rebounded in just over a month’s time. Everyone soon forgot about the Christmas-ruining mishap, as Spin Master made things right with its customers.

Fast-forward a few months later and the stock spiked another +20% in a day following a phenomenal quarter thanks in part to major contributions from Hatchimals. If you owned the stock and just sat on your hands, you would have come out on top, but if you jumped in and out of the stock based on “noise” like the “Hatchimals wouldn’t hatch” debacle, you would have missed out on tremendous upside as the sentiment spun 360 degrees in what seemed like an instant.

Bottom line

Just because the average investor flips a stock every few months doesn’t mean you should.

As Warren Buffett once advised, an investor should “*buy* on the assumption that [the exchange] could *close* the market the next day and not reopen it for *five years.”*

Doing so would force investors to do their homework and focus on the really long-term. Taking Warren Buffett’s advice also wouldn’t cause you to second-guess your investment decision and end up selling along with the herd.

Stocks are one of the few assets out there that get better with age. The longer you hang onto a stock, the less risk you’ll ultimately take on.

Stay hungry. Stay Foolish.

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