3 Reasons Why a Buy-and-Hold Strategy Doesn’t Work for Every Stock

Description

Investing is a long game, and while the temptation might be there in the short term to try to score some quick profits, holding for the long term usually yields the best results.

However, a buy-and-hold strategy that involves holding onto a stock for decades may not be the best approach anymore. While it has worked in the past, there are three reasons why it may no longer be successful:

The rate of innovation is more rapid than ever before

The sheer amount of change that we’ve seen in the past couple of decades suggests that things will become more volatile, not less.

Blockchain, artificial intelligence and driverless cars are just some of the technological advancements we’ve witnessed recently. These technologies could change our world in ways we can’t even imagine yet.

For instance, a bank stock like **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) might appear to be a stable buy today, but with cryptocurrencies on the rise, we could see a shift to a different type of banking in the future.

Tech companies have started showing an interest in banking and could be part of that revolution. While it’s too early to tell how much of a movement there will end up being from conventional banking toward more online services, it’s definitely a risk that could threaten the hierarchy in the industry.

Global competition is putting pressure on companies

In recent years, we've seen some big retailers closing up shop as consumers have been spending more and more of their money online. Physical locations are not playing as big a role as they once did, with consumers willing to buy from retailers all over the world.

If we return to the banking example, a big global bank could attract consumers with high savings rates or other advantages that a bank like TD may not be willing to match.

That could cost TD lots of customers and sales and put more pressure on the bank to find ways to either cut costs or win customers back, putting pressure on its bottom line in the process.

With global competition being more fierce than ever, a company may no longer have to worry just about its immediate borders anymore, which could pose big long-term risks.

Online-only model makes it easier for new competitors to pop up

Not only does a company like TD have to worry about a large competitor swooping in, but the sheer number of competitors could also be on the rise as well.

With brick-and-mortar locations no longer being a requirement for a business to be successful, it's easier for new competitors to pop up and lure away consumers with less overhead and attractive offers.

It simplifies the business model and makes the barriers to entry much smaller and easier for more competition to make its way through. That's going to make it more difficult for established companies like TD to hang on to their market share while still recording strong profits along the way.

Bottom line

With many new challenges facing companies today, it's simply too risky to assume that you can buy and hold a stock for decades and not have to worry about it.

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