Foolish Investing Philosophy: Taking the Long-Term Approach

Description

At The Motley Fool Canada, we believe in long-term investing.

But what does that mean? As the name suggests, we focus on making investments and holding onto them for the long term.

Every time an investor buys stocks, they've just purchased a piece of a company. And as an owner, that entitles them to a slice of the profits.

When it comes to investing, our goal is to find great companies, buy stock in these companies, and then behave like owners of these companies by celebrating their successes. Then hold on to those stocks for as long as possible.

For us, "holding on as long as possible" means that as long as we believe a company is still a great company, we're likely to hang onto any shares we own in it. But if something changes at that company to makes us believe it's no longer so great, then we may decide to sell those shares.

The main message here is that **we believe in long-term investing**.

Short-Term vs. Long-Term Investing

What we don't do is gamble on stocks or any other high-risk activities or products. Stock prices go up and down every day the market is open. And in some cases, prices continue to move even after the stock market has closed!

We have not seen any evidence that most people can be successful and build wealth by betting on when a stock is going to rise or fall over the course of minutes, hours, or days. In fact, there is plenty of evidence that shows this is one of the fastest ways to **destroy** wealth.

There are plenty of investing platforms available today that offer all sorts of trading solutions, from day trading, CFDs (contract for differences), spread betting, forex, and, more recently, cryptocurrencies.

These instruments aren't designed to make money off a winning business but rather from other traders. It's an endless game of musical chairs where someone is always left with nothing.

Don't believe us? We strongly encourage you to read the small print for these services. Don't be surprised to see disclosures that read something like "75%+ of retail traders lose money". We don't want that to happen to any of our readers, or anyone for that matter!

That's why we don't encourage our readers to take this approach. We want to help them learn to become financially successful over the long term.

Our aim at The Motley Fool is to help you learn about improving your finances and building wealth over time. We believe that investing in fantastic businesses and holding onto them for the long term is one of the best, proven methods to achieve long-lasting financial success.

Long-Term Investing: The Motley Fool Philosophy

Here are a few things we firmly believe to be successful for long-term investing.

Have Patience

In the short term, the movements of the stock market are chaotic and almost impossible to predict. But over a period of 5+ years, a recurring pattern starts to emerge among solid businesses.

Companies can't magically double their profits overnight. Building a massive multi-billion or even trillion-pound enterprise takes time. But the investors who have the patience and financial prudence to invest in the businesses with such long-term potential can unlock enormous wealth.

Invest Consistently

Getting started with investing is the first major step. The second is to keep investing more money over time. Even if it's only a tiny chunk of the monthly paycheque, the more money you put to work by investing in stocks, the faster your portfolio can snowball later on.

However, there is a caveat to this rule. You should only invest money you don't need for the next 3-5 years, minimum. Why? It's simple. Long-term investing requires holding investments for years or even decades.

The last thing you want is to be in a position where you're forced to sell a potential behemoth investment before it's had time to shine because you're short on cash. Or even worse, to be forced to sell your shares during a stock market crash when prices are extremely low.

In short, invest consistently. But only the money you can afford to live without.

Diversify your portfolio

A hard truth about investing is that sometimes you'll get it wrong. Even we've recommended businesses that haven't always worked out. There are plenty of factors at play influencing the success of a company. And sometimes, those factors are beyond the management team's control.

The technical term for this is firm-specific risk (sometimes referred to as unsystematic risk). And every company in the world, even industry titans like **Amazon** or **Microsoft**, has its own threats it has to contend with. It's unavoidable.

Fortunately, such risk can be mitigated through diversification. By owning a number of companies, the returns of one successful investment can easily offset the losses of several losers.

In our expert opinion, you should aim to build a portfolio over time of around 25 terrific businesses that you believe in. And that's something we can help you do with our Premium services, Stock Advisor, and Hidden Gems.

Don't Panic During Market Volatility

The stock market will crash. This is an inevitable fact of investing and a risk that comes with the territory. Naïve investors who panic during these volatile markets often end up selling stocks in great businesses that are either completely unaffected by the catalysts of the crash or perfectly capable of weathering the storm.

Just take a look at what happened with **Apple** in 2008. The tech giant fell by over 50% in the space of 12 months despite having no exposure to the US housing market. And while the subsequent recession did impact sales, recessions, just like stock market crashes, are temporary.

As horrendous as it is to experience a stock market crash, these are actually some of the best times to buy shares when investing for the long term. And they only come around once a decade, on average. So, don't miss out on these incredible opportunities to buy fantastic businesses at major discounts if you have the cash to spare.

Let Your Winners Win

Portfolio management is something every investor has to do. Yet a common mistake made, even by professionals, is to sell shares in thriving companies. In our experience, this is a major error. Why? Because winners have a tendency to keep winning.

Having said that, there is an exception. It's perfectly possible for a company that was 2% of your portfolio to grow to 20% or even higher. In these scenarios, it can be wise to sell a few shares to reduce the risk of being over-exposed to a single investment.

But otherwise, let your winners keep on winning.

You can do it!

There is no such thing as risk-free investing, even with a long-term approach. But many of these risk factors can be mitigated through strategies like diversification. And by employing our Foolish investing philosophy in your own portfolio, the journey to financial success should become far less difficult.

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