



The Effect of Time on Investing

Investing can seem like a very risky, complex and fast-moving process. With endless combinations of investment vehicles to choose from, it can be difficult to take your first step as an investor—especially with the knowledge that all investments carry the risk of losing some or all of your money. So why bother?

Well, there are many compelling reasons to make investing a part of your overall financial plan. Investing can help preserve your wealth by overcoming the effects of inflation, help you save for long-term goals (such as retirement or your children's education) and it can even generate income. So how can you get past all the negatives associated with investing and make it work for you? A helpful first step is to realize that, as a young investor, you have time on your side.

TIME AND LUCK

The Myth

We've all heard the stories (or seen the infomercials, or bought the e-book) about those people who took a chance on a risky investment and by some stroke of luck woke up the next day as millionaires. It's easy to be drawn to "get rich quick" stories because we all secretly wish we could be the stars of those tales. Those success stories help establish the myth that being a successful investor is a lot like being a hotshot gambler—that you need to risk it all to get a worthwhile reward, and that some people are born with the innate ability to predict the market, make the right moves, buy and sell at the exact right time, and strike it rich.

The Reality

The truth is that serious investing requires a lot of time. There's an entire education behind active trading. If you were to invest into the stock market without any prior research, you might as well be playing the lottery. Educating yourself about the stock market is no simple task and it requires ongoing research. It's not only about understanding the way economies and global marketplaces work—it's also about staying up to date on what's happening in our world. Environment, technology, politics and culture all have the ability to influence economic forces. Beyond understanding those interactions, a smart investor also keeps very close tabs on the industries and companies they invest in by monitoring things like performance, governance, public opinion and industry trends. Now, imagine all that data changing and updating daily; suddenly, it's clear why it can—and should—take so much time to make educated investment decisions.

When we acknowledge that preparation takes an incredible amount of time, it minimizes the role that luck plays in investing. Suddenly it's less about taking a gamble and more about making calculated and educated decisions, which is a good thing—it means that investing is something you can practice, explore and ultimately improve on, over time.

TIME AND RISK

The Myth

For every investing success story, there's an accompanying horror story. This myth comes in different flavors—acting on bad advice, losing every last dime, and getting taken advantage of by an evil or incompetent financial advisor are just some of the common scripts. This myth perpetuates the idea that investing is so scary and so unpredictable that it's simply not worth the risk.

The Reality

It can be tricky trying to separate this myth from the truth, because risk and loss are both very real outcomes of investing. No investment is ever guaranteed, meaning your invested money is never absolutely safe. Some investment types may be safer than others, but the risk of losing your money is ever-present.

After making smart, thoroughly researched investment choices, your next best protection against risk and volatility is the amount of time you have for your investment to mature. The narrower your investment time frame, the more vulnerable you are to sudden and often unpredictable changes in the market. By contrast, if your investment is long term (think decades), day-to-day changes suddenly hold less influence. Plus, there is time to recover from market declines; the same cannot always be said for short-term investments.

TIME AND RETURNS

The Myth

Yet another investment myth is that it's impossible to find a combination of investment products within your risk tolerance level that will result in a high yield. In other words, playing it safe with your investments means measly returns.

The Reality

Do you remember learning about compound interest? Time happens to be compound interest's best buddy. Together, they can really put your money to work for you. This is especially important to note for long-term savings goals (retirement is a good example). Even products with a relatively low expected yield can accumulate a lot of wealth over long periods of time, so do not get discouraged by low interest rates on investment products. Look for opportunities to maximize the effect of compound interest, such as reinvesting your dividends or refraining from cashing out your investment early.

As you can see, time plays a significant role when it comes to investing. It can give you more control over your investments, it can increase your tolerance for risk and your ability to recover from any losses, and it can maximize your returns. By starting early, investing wisely and giving yourself the time you need to reach your goals, you will discover the positive impact that a little bit of planning today will have on your lifestyle in the future.