

The Value of Buy-and-Hold investing

If there is any one lesson we can take from the breakdown of annual results versus the average, it is that investors are far more likely to earn the best returns by investing for the long term. There is simply no reliably accurate way to predict which years will be the good years and which years will underperform or even lead to losses.

But we do know that, historically, the stock market has gone up more years than it has gone down.

The S&P 500 gained value in 40 of the past 50 years, generating an average annualised return of 9.4%. Despite that, only a handful of years actually came within a few percentage points of the actual average.

Far more years significantly either underperformed or outperformed the average than were close to the average.

Average stockmarket returns – Since 1972 (S&P 500)

	Years	%	Gains/Losses %
Returns of 20% or more	19	38.00%	
Returns between 10% and 20%	13	26.00%	
Returns between 0% and 10%	9	18.00%	82.00%
Losses between 0% and 10%	4	8.00%	
Losses between 10% and 20%	2	4.00%	
Losses of more than 20%	3	6.00%	18.00%
	50	100.00%	100.00%

Average annualised returns over the past 10, 30, and 50 years (S&P 500)

PERIOD	ANNUALISED RETURN (NOMINAL)	ANNUALISED REAL RETURN (INC INFLATION)
10 years (2012-2021)	14.80%	12.40%
30 years (1992-2021)	9.90%	7.30%
50 years (1972-2021)	9.40%	5.40%

What is an investor to do?

Buy high-quality stocks, ideally regularly across every market condition, and hold those investments for many years. The evidence is overwhelming that investors who try to trade their way to higher returns with short-term moves or buy and sell based on projections of short-term peaks and bottoms generally earn below-average returns.

Moreover, those strategies require substantially more time and effort. They can also result in higher fees and taxes that further reduce gains.

If you are looking to build wealth, investing in stocks is an excellent place to start. But to get the best returns in stock investing, use the method that is tried and tested:

Buy great stocks and hold them for as long as possible.