The data that shows a case for long-term investing

148 years of data show short-term punts on the stock market are very risky. Long term investments, not so much.

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After the recent declines, you would be forgiven for considering stock market investing an intimidating prospect.

And to some extent you would be justified. After all, in the short-run, the stock market is indeed prone to violent swings – in both directions. But the longer you invest for, the narrower the range of outcomes becomes and the lower the risk of losing money.

For example, using over 148 years of data on the US stock market index, the S&P 500, we found that, if you invested for a month, you would have lost money roughly 40% of the time in inflation-adjusted terms i.e. in 704 of the 1,790 months in our analysis.

However, if you had invested for longer, the odds would shift dramatically in your favour. On a 12-month basis, you would have lost money slightly more than 30% of the time. Importantly, 12-months is still the short-run when it comes to the stock market. You've got to be in it for longer.

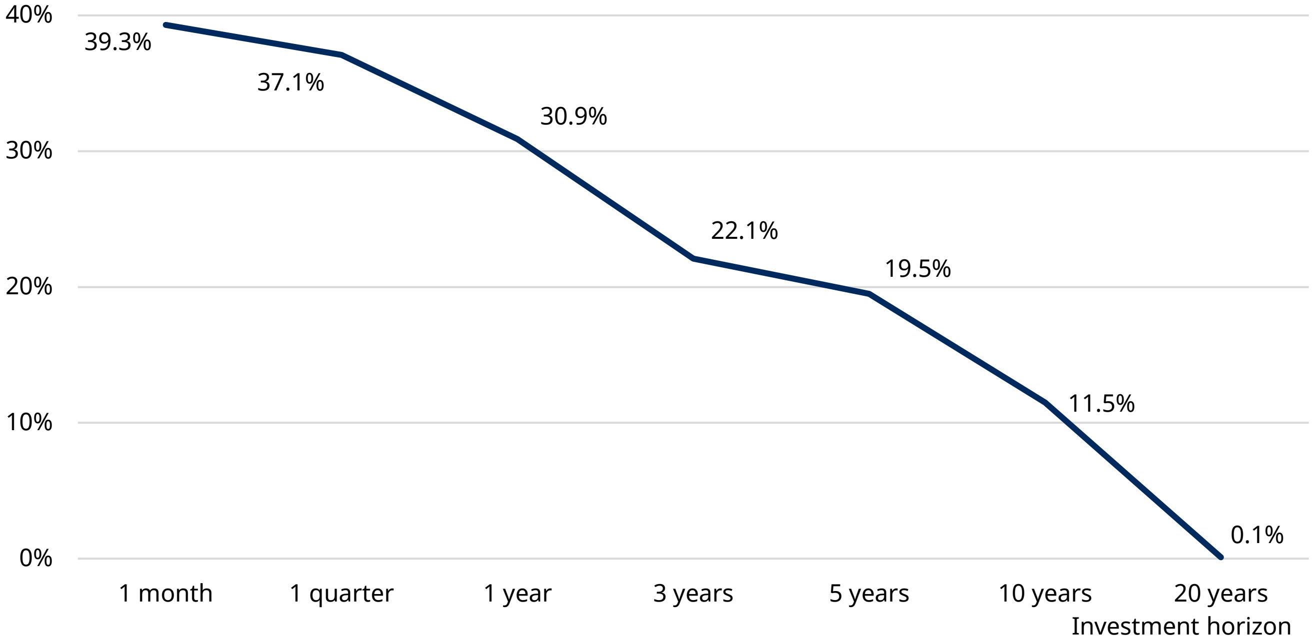
On a five-year horizon, that figure falls to 20%. At 10 years it is approaching 10%. At 20 years it is negligible – of the 1,551 rolling 20-year periods between January 1871 and March 2020, there was only one where stocks lost money in inflation-adjusted terms (July 1901- June 1921, when the real return was -0.2% a year).

Losing money over the long run can never be ruled out entirely and would clearly be very painful if it happened to you. However, it is also a very rare occurrence.

The message is simple. Short-term punts on the stock market are very risky. Long term investments, not so much.

Short-term investors have faced significant risks of losing money, longer-term investors have not.

Percentage of the time where investors would have lost money in inflation-adjusted terms



Past performance is not a guide to future performance and may not be repeated.

Source: Robert Shiller, Schroders. Analysis based on rolling periods for S&P 500 index. Data January 1871–March 2020.

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