Does Buy and Hold Still Work?

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As an investment strategy, "Buy and Hold" is just what it sounds like: you buy an investment and hold it for an extended period, riding out market fluctuations and selling when the price reaches your target. The underlying logic of this strategy is that **investments tend to gain value over time.** That long-term gain, along with compound interest, can work to increase your initial deposit and provide you with a valuable asset for your future.

Buy and Hold is a passive investing style used by those who believe that "time in the market" is a more prudent approach than "timing the market." Among those investors is Warren Buffet, who acquired much of his fortune on the principle of Buy and Hold. "The money is made in investments by investing and by owning good companies for long periods of time. " Buffett has said.[1] "If [people] buy [stock in] good companies, buy them over time, they're going to do fine 10, 20, 30 years from now."

According to Barry D. Moore[2] of The Liberated Stock Trader, a Buy and Hold investment strategy will win over the long-term. Still, it requires tenacity and the right mindset, especially during periods of market volatility. "If you get scared during a crisis and cash in, you will miss out on the bargains of a lifetime at the bottom of the crash." Moore also suggests that investors be informed by history. "There has never been a 20-year period since 1945, where a Buy and Hold investor has not made significant gains."

The significant advantage of Buy and Hold is that it tends to perform well over longer time horizons. Other benefits of this investment strategy include:

Cost savings

Costs are minimized because buy and hold requires less frequent trading, potentially increasing the investment portfolio's overall net return.

Tax savings

Long term capital gains and dividends are taxed lower than interest income.

Simplicity

After you buy, you just carry on and wait patiently for your investments to grow.

Deciding on an investment strategy can be complex and is best done under the **guidance of a financial advisor.** While the Buy and Hold approach offers clear benefits, there are other factors to consider. Work with your financial advisor to choose what's wisest based on your risk tolerance and personal financial goals. It all begins with a conversation.

Contact our office today [1] to explore your options.

Sources:

1. Warren Buffett: Buy, hold and don't watch too closely (2018). https://www.cnbc.com/2016/03/04/warren-buffett-buy-hold-and-dont-watch-too-closely.html [2]

2. Is Buy and Hold A Good Strategy & How You Can Do It? (2020). https://www.liberatedstocktrader.com/buy-and-hold-stocks// [3]

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