REACH

Buy-and-hold as an investing strategy: Weigh the pluses and minuses

A common investing approach investors may hear about when starting out consists of some variation of buying quality securities and holding on to them for an extended period, through thick and thin. Known as "buy-and-hold" investing, this approach is designed for long-term investors who are willing to assume the risks inherent in stock investing in exchange for the potential returns that equities have historically offered. However, before making any investment decisions, individuals should consider the potential advantages and disadvantages of following this approach.

On the plus side

With a buy-and-hold approach, ordinary investors have only to purchase shares of well-regarded stocks or stock funds[1] – often with a knowledgeable financial professional's assistance – and hold on to their investment for several years. Based on the stock market's historical long-term growth trajectory, buy-and-hold investors expect to be rewarded for their patience by enjoying gains in the value of their investments. In the case of stock index funds that track a broad market index, investors' gains would generally mirror whatever gains the broad market enjoys. Although past performance does not guarantee future results, the bottom line is that buy-and-hold is relatively easy to implement.

Another potential advantage is that, unlike active traders, buy-and-hold investors do not have to put a lot of time into constantly checking their portfolios. They can generally ignore day-to-day volatility because they plan to hold their shares through short-term ups and downs in price. Nonetheless, they do need to monitor their portfolios periodically and look for underperforming investments. Moreover, even if a portfolio consists of funds rather than individual securities, buy-and-hold investors should consider rebalancing[2] their portfolios at least annually to ensure their desired asset allocation remains in place.

Buy-and-hold investors may also save on commissions and transaction fees compared to investors who are active traders. In addition, when investments are held in a taxable account, the buy-and-hold strategy can be tax efficient since any long-term capital gains and qualified dividends may be taxed at a lower rate than short-term gains, which are taxed at the investor's individual federal tax rate.

On the minus side

Buy-and-hold investors should have a high tolerance for market volatility. Falling markets often result in steep drops in a portfolio's value, and funds or individual stocks may experience substantial price swings. As long as the investor does not sell, these losses are only paper losses. However, a buy-and-hold strategy can create problems when an investor needs to raise cash by selling securities when their market prices have declined.

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Another potential drawback to the buy-and-hold approach is that it ties up capital for a long time, potentially costing the investor other investment opportunities. However, buy-and-hold does not mean that investors should lock themselves into an underperforming investment for an extended period. If an investment consistently underperforms the broader market and its benchmark, then it may be time to sell and redeploy assets elsewhere.

> If you are interested in learning more about buy-and-hold investing or some other approach, it may be very helpful to speak to a financial professional for additional insights.

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[1] You should consider a fund's investment objectives, charges, expenses, and risks carefully before you invest. The fund's prospectus, which can be obtained from your financial representative, contains this and other information about the fund. Read the prospectus carefully before you invest or send money. Shares, when redeemed, may be worth more or less than their original cost.

[2] Rebalancing a portfolio may create a taxable event if done outside of a retirement or other tax-deferred account.

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