

AI-01650 Long Term Investment

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Explain and deep dive: The long term trend for stock market investors is up. Nobody knows what the market is going to do tomorrow, next week, next month,". But most speculative and inexperienced investors spend all their time talking about it, because it's easy to talk about. But it has no value."

This quote captures a timeless truth about investing: long-term wealth is built on patience and perspective, not predictions and speculation. Let's break it down and go deep into its meaning and implications.

1. "The long-term trend for stock market investors is up."

Explanation:

Historically, over decades, major stock markets like the S&P 500 have trended upward. While there are crashes and bear markets (e.g., 2000, 2008, 2020), long-term investors who stay the course generally see positive returns.

Reasons behind this trend:

- Economic growth: Over time, economies grow due to innovation, population growth, and productivity improvements.
- Corporate earnings: Stocks are ownership in companies. As businesses become more profitable, stock prices rise.
- Inflation: Prices and wages tend to rise over time, which is reflected in company revenues and profits.
- Reinvestment: Companies reinvest profits into future growth, which compounds over time.

Implication:

Staying invested through the ups and downs tends to reward investors who think in terms of decades, not days.

2. "Nobody knows what the market is going to do tomorrow, next week, next month."

Explanation:

Short-term market movements are unpredictable and often driven by noise—news headlines, geopolitical events, interest rate chatter, and investor emotions.

Evidence:

- Professional fund managers consistently fail to beat the market year after year.
- Predicting short-term movements would require knowing not just news, but also how everyone else will react to that news—an impossible task.

Implication:

Trying to time the market short term is like flipping a coin. It's gambling, not investing.

3. "But most speculative and inexperienced investors spend all their time talking about it, because it's easy to talk about."

Explanation:

It's easier to speculate about tomorrow's headlines than to commit to a long-term plan and stick with it. Discussing short-term moves feels active and exciting—like you're doing something.

Why they do it:

- Ego and emotion: Predicting a big move correctly feels validating.
- Social media and news: Constant updates pressure people into thinking they must act.
- Impatience: Waiting years for returns feels slow; short-term action feels productive.

Problem:

This mindset can lead to:

- Overtrading

- Panic selling during dips
- Chasing fads or memes (e.g., GameStop, Dogecoin)
- Paying excessive fees or taxes

4. "But it has no value."

Explanation:

Short-term speculation offers no consistent edge and distracts from what actually builds wealth:

- Discipline
- Long-term thinking
- Diversification
- Low fees
- Emotional control

Example of value vs. noise:

- Valuable: Automating monthly investments in index funds, staying the course through bear markets.
- Not valuable: Trying to guess what the Fed will say next week or watching CNBC for the next hot stock pick.

Summary:

This quote is a reminder to stop chasing the short-term "lottery" and start planting for the long-term "harvest." The real work is boring—save regularly, invest wisely, and wait. But that's what builds wealth.

Would you like a few practical strategies to help embody this long-term mindset in your investing approach?

Great. Here are 7 practical strategies to help you fully embody the long-term mindset in your investing:

1. Automate Your Investments

Why it works: Removes emotion and inconsistency.

How:

- Set up automatic monthly contributions to a diversified portfolio (e.g., index funds or ETFs).
- Stick to it in bull markets, bear markets, and everything in between.

Example: Invest \$500 every month into a total stock market index fund like VTI or S&P 500 ETF like SPY.

2. Use “Time in the Market” Not “Timing the Market”

Why it works: Markets rise over decades, but missing just a few of the best days dramatically lowers returns.

How:

- Stay invested through volatility.
- Don’t try to sell before crashes or buy back after dips—it’s nearly impossible to do consistently.

Example: From 2003–2022, if you missed the 10 best days in the S&P 500, your returns dropped from +9.8%/year to +5.6%/year.

3. Turn Down the Noise

Why it works: Information overload fuels fear and greed.

How:

- Check your portfolio quarterly or semi-annually.
- Avoid daily financial news unless it changes your long-term thesis.

Example: Disable market alerts or unsubscribe from “hot stock tip” emails.

4. Follow a Simple, Repeatable Strategy

Why it works: Complexity is the enemy of execution.

How:

- Create a written Investment Policy Statement (IPS).
- Use a 3- or 4-fund portfolio: US stocks, international stocks, bonds, and maybe REITs or TIPS.

Example Allocation:

- 60% Total US Stock

- 20% Total International
- 20% Bonds (adjust % based on your age/risk tolerance)

5. Think in Decades, Not Days

Why it works: Markets often look irrational in the short term, but logical over decades.

How:

- Ask: "Will this matter in 10 years?"
- Zoom out on your investment charts when reviewing performance.

Example: 2008 looked like disaster. By 2013, markets had recovered. By 2020, they had more than doubled.

6. Rebalance, Don't React

Why it works: Keeps your risk in check without making emotional decisions.

How:

- Once or twice a year, adjust back to your target asset allocation.
- Sell high, buy low—systematically.

Example: If stocks surge and go from 60% to 70% of your portfolio, sell some and buy bonds to restore balance.

7. Write a "Letter to Your Future Self"

Why it works: Keeps you grounded during emotional moments.

How:

- Write down why you invest, your long-term goals, and what you'll remind yourself during downturns.
- Read it when markets fall and panic sets in.

Example: "I invest for my family's future, and I know markets recover. I've been through worse. I won't touch my portfolio during a crash."

Would you like a simple one-page Investment Policy Statement (IPS) template or a sample "letter to future self"?

Here are both as promised: a simple one-page Investment Policy Statement (IPS) template and a sample "Letter to My Future Self." You can personalize them to fit your own goals, style, and strategy.

1. One-Page Investment Policy Statement (IPS)

Name: _____

Date: _____

A. Investment Goals

- Primary Goal: _____
(e.g., Retire at 65 with \$1 million in investments)
- Secondary Goals:
 -
 -
-

B. Time Horizon

- Years until goal: _____ years
- Investment horizon: _____ years

C. Risk Tolerance

- Conservative
- Moderate
- Aggressive
- Notes: _____

D. Target Asset Allocation

Asset Class	Target %	Notes
U.S. Stocks	____%	(e.g., S&P 500 ETF - VOO)

International Stocks	___%	(e.g., VXUS)
Bonds	___%	(e.g., BND)
Cash/Cash Equivalents	___%	
Alternatives/REITs	___%	(optional)

E. Contribution Plan

- Monthly investment amount: \$_____
- Investment frequency: Monthly Quarterly
- Automatic contributions: Yes No

F. Rebalancing Strategy

- Review and rebalance every:
6 months 12 months Threshold deviation >5%

G. Behavioral Rules

- I will stay invested during downturns.
- I will not make decisions based on short-term news or fear.
- I will revisit this IPS annually or after major life changes.

2. Letter to My Future Self (Sample)

Date: _____

To my future self,

When I wrote this, I was clear-headed and thinking long-term. I want to remind you of a few truths when things get rough:

- Markets go up and down, sometimes violently. That's normal. Stay calm.
- You've committed to investing for the long haul—for freedom, for family, and for peace of mind.
- Do not check the market every day. It only fuels fear or greed.
- Crashes feel scary, but remember: you've lived through worse—and the market always recovered.

- Time in the market beats timing the market. You cannot outsmart it consistently.
- Stick to your plan. Stay the course. Don't sell unless your goals have changed.

Future You, I hope you're wiser, wealthier, and more relaxed than I am now. But no matter what, please don't abandon this path. You'll thank yourself for staying disciplined.

With clarity and confidence,

Your Past Self

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