Investing Basics: Time Horizon

One of the basic cornerstones to investing is in understanding your investment time horizon. Identifying your unique time horizon, as well as your investment objective and risk tolerance, is paramount before implementing an investment strategy. Since risk is present in all investments, you should be mindful of your time horizon before implementing an investment strategy. Investments in stocks, bonds, real estate, and mutual funds include risks associated with fluctuation or even loss of principal. Even certificate of deposits (CDs) offer risk, known as inflation risk, as the return may not keep up with the pace of inflation.

The first step in establishing a time horizon is to identify your objective or ultimate financial goal. This might include saving for a child’s education expenses, purchasing a vacation home or saving for retirement. Identifying your investment objective will help steer you towards suitable investments to help you achieve those goals.

Generally, the longer your time horizon, the more risk you can take with your investments. Investments in stocks, real estate or growth oriented mutual funds are often suitable for investor’s with long-term investment horizons. Investments for shorter-term goals should be invested more conservatively as there is less time for the investment to rebound in price should there be a drop in investment value. Money market, CDs, short-term bonds, or conservative allocation mutual funds are often used for short-term investment goals.

Think about the length of time to the *start* of the investment goal, but also consider the length of time to the *end* of the goal. For example, a 50 year old might have a goal to retire at age 60. One time horizon consideration is the fact that there is ten years before that person will begin to use the monies for retirement income. Not to be ignored, this person might very well live well into their 80s in retirement so the time horizon for using those retirement monies may really be 30 years or more.

The next time you are selecting an investment, it is prudent to consider your time horizon for that investment. A basic foundation in developing a portfolio is to clearly define the amount of time to, and through, the investment goal before selecting an investment vehicle. One of a Financial Advisor’s most important jobs is to help you with a financial plan that is customized to your unique investment objective, risk tolerance and time horizon.

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