Time: A Key Element Of Investing

Who knows where the time goes? We've reached the end of another year, so it's appropriate to reflect on the nature of *time* and how it affects us. And time certainly is a key element in the pursuit of your financial goals.

As an investor, time can be your greatest ally. If you hold some investments for the long term, you could achieve an impressive cumulative growth in value. Furthermore, if you keep adding shares to these investments, possibly through a dividend reinvestment plan, you could attain "growth on growth" through the power of compounding. Of course, when you own equity investments, you will experience market fluctuations, but in general, the longer you hold these investments, the more you can reduce the effects of market volatility.

But you also need to consider aspects of time in these contexts:

• *Checking progress on achieving goals* – When you establish a goal, such as saving for a child's education or your own retirement, you know the end date of when you'll need the money, but it's also important to mark your progress along the way. So, each year, see how far along you are in meeting your goal. If you're falling behind, you may need to adjust your investment mix.

• *Choosing an appropriate strategy* – The time needed to achieve a goal should drive your investment strategy for that goal. For example, when you are saving for a retirement that won't happen for three or four decades, you will need to invest for growth by placing a reasonable percentage of equities and equity-based investments in your portfolio, based on your comfort with the various types of risk, including interest rate risk, credit risk and market risk. You will experience some bumps along the way — keep in mind that the value of investments will fluctuate and the loss of some or all principal is possible — but you likely have time to overcome the "down" periods. On the other hand, when you are saving for a short-term goal, such as a vacation or a new car or a wedding, you'll want a set amount of money available precisely when you need it. In this case, you may need to sacrifice some growth potential for investments whose principal value won't fluctuate, such as certificates of deposit (CDs) and bonds.

Keep in mind, though, that when you're investing for long- and short-term goals, it doesn't have to be just one strategy or the other. You can save for retirement with primarily growth vehicles but still have room in your portfolio for shorter-term instruments. And even when you're specifically investing for some short-term goal, you can't forget about your need to save and invest for retirement.

And here's one final point about the relationship between time and investing: Your risk tolerance can, and probably will, change over the years. As you near retirement, you may feel the need to adjust your portfolio toward a more conservative approach. That's because you may want to consolidate any gains you might have achieved while also recognizing that you simply have less time to bounce back from down markets. Still, even in retirement, you'll need some growth potential in your portfolio to help you stay ahead of inflation.

When you invest, one of your biggest considerations is time — so use it wisely.

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