

Market Risk & Time

While the stock and bond markets can be risky in the short run, time has a moderating effect on market risk. The longer you hold a stock or bond investment, the lower your chances of losing money, and the greater the odds of earning a return close to the long-term average.

For example, a one-year investment in stocks has historically produced returns ranging from +53.9% to -43.3%. Over ten-year periods, however, returns have varied from -0.9% per year for the worst ten years to +20.1% per year for the best ten years.

Range Of Returns on Stocks: 1926 to 1997		
Holding Period	Best Return	Worst Return
1 Year	+53.9 %	-43.3 %
5 Years	+23.9 %	-12.5 %
10 Years	+20.1 %	- 0.9 %
15 Years	+18.2 %	+ 0.6 %
20 Years	+16.9 %	+ 3.1 %
25 Years	+14.7 %	+ 5.9 %

As you can see, risk can be substantial over short periods. But over longer horizons, the chance of losing money is substantially reduced.

The same principle applies to bonds, though bonds are less risky than stocks. For long-term bonds, it takes ten years before returns are consistently positive; for shorter-maturity bonds, about three years.

Of course, it should be noted that past performance in the stock and bond markets does not necessarily predict future performance.