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Why Time Matters

It is not uncommon for an individual or organization, such as a charity or community tennis club, to consult a financial planner or investment advisor regarding investment returns that can be generated on some spare cash that is not needed in the immediate future.

As a result, the issue of investment “time horizon” is brought to the forefront as a key variable in making investment recommendations, which lead to a series of questions from the advisor such as the purpose of the funds, the target rate of return desired, when will the monies be needed and under what circumstances would the investment be cashed out in an emergency.

Consider a typical scenario in which a client has sold a home and is not thinking of buying again for a year or so. They have a $100,000 to invest and want to know if they can make a lot more money than what can be earned in GICs or other short term investments.

Time becomes a key factor in the above scenario because the client cannot afford to have the money drop in value by anywhere up to 20% in a normal stock market correction. If the markets correct in month nine of the investment program, the funds may take anywhere from a few months to a couple of years to fully recover, let alone earn an investment return that meets the clients hopes and expectations. Consequently, the client may be forced to sell at a loss to buy their new home and not give the investment and the economy the time it needs to grow.

Conversely, in the event that the advisor and the client “get lucky” and make a large return on their money, such as 30% for example, does the out-sized gain in a one-year time horizon make any real difference to the client’s financial health and wealth?

To illustrate the scenario further, the client says they intend to buy a home for $400,000 in a year. The starting capital is $100,000 and even if the money were to double, it would still leave the client with a mortgage of $200,000 or more. Therefore, taking a big risk does not change the client’s financial situation very much from a debt and balance sheet point of view as he/she was not able to invest the money and earn enough returns to pay cash for the home and be mortgage free in a one-year time frame.

Alternatively, if the client’s invested money dropped in value by $10,000 or more, this could have a major impact on the client’s ability to afford their dream home. Perhaps the additional mortgage debt would affect their lifestyle and cash flow severely, let alone the stress they would experience during the market correction with visions of buying their dream home hanging in the balance.

As you can see, time matters greatly as a variable when constructing client portfolios and assessing how much volatility and risk a client can comfortably handle, which drives the point home that your time horizon matters when making investment choices and is also why your advisor asks all those detailed questions.

Please call us today if you have some spare cash to invest personally or in your corporate accounts. We will review your objectives and time horizon and offer appropriate options as to how to invest your money.

Do you have questions about your investment strategies?

Contact our office today ! [1]

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