3 Factors to Consider When Investing for the Long Term - Video Transcript

When it comes to investing for the long term, three primary factors will influence the investment strategy in your portfolio.

They are: Your financial goals, your risk tolerance, and your time horizon.

Let's look at each of these in greater detail.

The first factor is your financial goal, or goals.

Before setting out on any journey, you need to know your destination. This is also true in investing. While "accumulating as much money as possible" may be a worthy objective, it's important to be specific when setting investment targets.

For example, how much of your children's education do you want to fund? What does a successful retirement mean to you? Do you want to be able to leave money to your heirs? Answering these types of questions will help assign dollar amounts to individual goals, leading to more strategic portfolio decisions.

The second factor is your risk tolerance, or how comfortable you are with the possibility of losing money along the way.

Some investments are riskier than others, and generally speaking, the riskier the investment, the higher the possible returns. However, riskier investments also carry a greater chance of losing money.

Would you be comfortable with an unexpected drop of 10% or more in the value of your portfolio? An honest assessment of your ability to withstand losses is key to putting together an appropriate investment mix.

The third factor is your time horizon. When will you need the money?

Your time horizon is important because the more years you have ahead of you, the more time you may have to ride out the periods of market volatility. But the shorter your time horizon, the less time you'll have to possibly recoup any losses that may occur.

All three of these factors are interrelated. A high savings goal may require riskier investments to pursue higher returns — but typically also requires a long time horizon to help manage that level of risk.

On the other hand, if you're less comfortable with risk or will need the money in a shorter time frame, you may need to adjust the expectations that help you set your goals.

Fortunately, you don't have weigh all these factors on your own. Your financial professional can help you make the necessary assessments and consider how they work together over time.

There is no assurance that working with a financial professional will improve investment results. But by focusing on your overall financial objectives, a financial professional can provide education, identify strategies for taking control of many financial situations, and help you consider options that could have a substantial effect on your long-term financial situation.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful. Rates of return will vary over time, particularly for long-term investments.