

ABOVE THE FRAY

Longer Horizons Look Better for Stocks

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For many investors, it's hard not to follow the daily fluctuations of the stock market. But day-to-day volatility is a reminder that stocks are best considered a long-term investment.

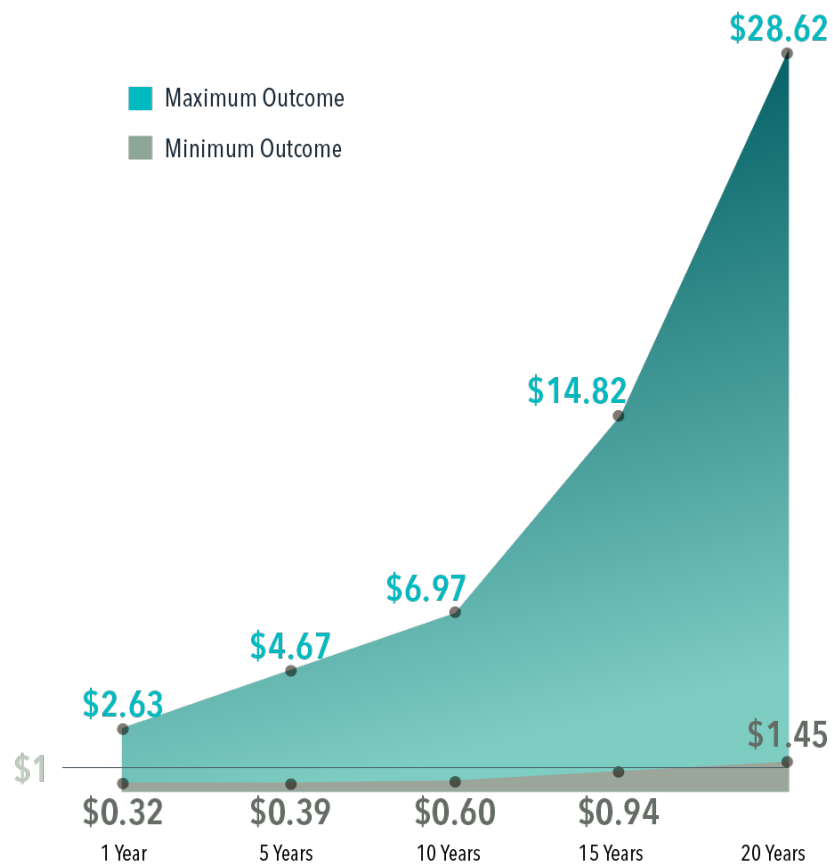
Part of the reason stocks have higher expected returns than bonds is uncertainty over shorter horizons. For example, the S&P 500 Index return was negative in about 24% of overlapping one-year periods from January 1926 through March 2025. The worst outcome over these one-year periods was about -68%, dropping \$1 in invested capital to just \$0.32.

Things have looked better over longer horizons, with the caveat that the number of independent observations among rolling return windows dwindles as the horizon lengthens—just five for the 20-year returns. But the frequency of negative returns decreases as the investment period expands, and no stretch over 184 months has been negative.

This is not to imply stocks are less risky in the long run. The range between best and worst outcomes becomes vast at the longer time horizons. But the data we have suggest the likelihood of losing money in stocks is far lower if they are viewed as long-term investments.

Of course, most investors also have short-term needs for their capital. That's why most of us have a mix of stocks plus risk-management assets, such as bonds. A thoughtfully designed asset allocation helps balance short-term liabilities with long-term growth of wealth. And that's a recipe for staying disciplined and paying less attention to the throes of stocks each day.

Exhibit 1
Growth of \$1, S&P 500
Index
 January 1926–March 2025



Past performance is no guarantee of future results.

Growth of \$1 computed over rolling monthly periods for the S&P 500 Index assumes reinvestment of income and no transaction costs or taxes. Outcomes are reported for the minimum and maximum of these observations. There are 1,180 overlapping one-year periods, 1,132 overlapping five-year periods, 1,072 overlapping 10-year periods, 1,012 overlapping 15-year periods, and 952 overlapping 20-year periods. The analysis is for illustrative purposes only and is not indicative of any investment. S&P data © 2025 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Indices are not available for direct investment.

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