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13 LONG-TERM INVESTING STRATEGIES ADVISORS LOVE

Financial advisors share their favorite long-term investing strategies.

By: Coryanne Hicks - February 10, 2022

Think long term for greater success.

Investors often fall into two camps: those chasing short-term gains and those who are in it for the long haul. While short-term gains are hard to come by and even harder to maintain, smart long-term investing strategies have a much higher likelihood of coming out ahead over time. The challenge is determining the right long-term strategy to reach your goals. Here are long-term investing strategies financial advisors love to use with their clients.

Use your cash flow as a guide.

For any long-term investing strategy to be successful, you need to be able to protect your investments from immediate expenses. This means managing your cash flow. "Positioning properly and understanding the dollars you live by is just as important as the dollars you grow by," says Peter Casciotta, owner of Asset Management & Advisory Services of Lee County in Cape Coral, Florida. Since we can't control all aspects of our finances, he says, it's important to know your current cash flow, maintain a three- to six-month cash-reserve position, and use a balance of fixed and more variable or volatile investments. If done correctly, this should help ensure you never need to sell an investment at a loss. "If investment dollars are necessary to be liquidated, consider utilizing the variable portion of investments, if the economy is in favor," he says. "If the economy is not in favor, consider utilizing the fixed portion of investments."

Have a solid financial plan.

"While it's hard to know what tomorrow will bring, it's important to know what you want and need down the road," says Chuck Cavanaugh, director of Wealth Planning, Insurance & Annuity Distribution for U.S. Consumer Wealth Management at Citi. This is where having a financial plan comes into play. Your financial plan should serve as a roadmap to help you navigate from where you are today to where you want to be in the future. This guideline will help you determine the best long-term investment strategy to meet your goals. "Of course, like any journey, unexpected twists and turns can come up, but your financial plan is your north star, which can grow and adapt over time," Cavanaugh says. "To ensure it's solid, go over your plan at least once a year with your advisor, especially as you face major life changes."

Don't try to time the market.

Trying to time the market is the nemesis of successful long-term investing. "Timing the market is one of the biggest myths of investing, and most times, no one gets it right," Cavanaugh says. Long-term investors are almost always better off using a more regimented approach, such as dollar-cost averaging, where you invest a set amount over a regular period without consideration of the current market value. That said, studies have also found that if you have a lump sum to invest, it's usually better to just invest it right away rather than adding smaller amounts over time. "While investing in companies or sectors that you're passionate about is important, you can't let emotions cloud your judgment when it comes to buying and selling stocks in the short term," Cavanaugh says.

Buy and hold.

If timing the market is the nemesis of long-term investing, buy and hold is perhaps its greatest ally. "Long-term investing doesn't need to be extremely complicated," says Jeff Busch, partner of Lift Financial in South Jordan, Utah. "If you can weather the storm when the market dips and remember your long-term objectives, the market tends to bounce back." This bounce may be quick, within a matter of months, or it may take a little longer, but patient investors have been rewarded by a market that historically has always trended up. "To make this strategy work for you, I recommend consulting with an advisor to determine the right mix of investments to meet your personal objectives," Busch says. "Having a good mix of large-company stock, small-company stock, as well as some international exposure that is tailored to you and your risk tolerance will help to make your long-term portfolio meet your expectations."

Stay diversified.

The stock market can be a bumpy ride. To help mitigate the ups and downs you're bound to experience, advisors recommend diversifying your portfolio. Cavanaugh says to distribute your investment dollars among different asset classes, such as stocks, bonds and commodities, and industries. The key to a diversified portfolio is using investments that don't all move in the same direction at the same time. For instance, when stocks are down, bonds tend to be up. This ensures that if the stock market takes a downturn, your entire portfolio won't go with it. "The portfolio construction process may involve technicalities or industries you're less familiar with, and that's why speaking with a financial advisor is incredibly helpful," Cavanaugh says. "There's no one-size-fits-all approach when it comes to investing, so getting customized guidance in a way that you're most comfortable with is key."

Consider alternatives.

Many experts have low expectations for the future returns of traditional investments, such as stocks and bonds, and suspect the market will be entering a tightening cycle for interest rates soon, says Nicholas Millikan, managing director at CAIS IQ. Given this, advisors are increasingly turning to alternative investments for enhanced returns, to diversify risk and to supplement investor incomes. "This includes greater interest in equity hedge strategies, such as long/short and market-neutral hedge funds, which have the potential to dampen the volatility of a portfolio and provide absolute returns irrespective of the direction of the broader market," Millikan says. "Additionally, venture capital and private equity have been highly sought after, as they may give advisors access to companies that may be experiencing a higher growth phase of their operations." That said, alternative investments are often less liquid – meaning they're harder to get in and out of – than traditional investments, so it's important to refer back to your cash flow needs before deciding how much to allocate to these investments.

Look for quality.

"Of all the factors to consider when investing in the long term, quality is one of the most important factors for our clients and often the most overlooked," says Seth Howard, a financial advisor at Edward Jones. There's often the temptation to buy what's popular in the market, but this may not be the right fit for your portfolio and may carry more risk than you realize. Rather than jumping into all the shiny new investments, you might do better by looking for those less glamorous but more dependable investments that have a track record of doing well over time. "Most successful individual investors make their money over time, not overnight," Howard says. It's the quality investments that have a higher probability of sustainable growth that will see you through to the next decade and beyond.

Dampen volatility.

"Any long-term investing plan should focus on managing uncertainties that may potentially derail the plan," says Ted Wozniak, U.S. Head of Asset Management Distribution for SEI. SEI favors long-term investing strategies such as volatility dampeners, or risk parity equity strategies. Risk parity involves building portfolio allocations around the objective of a balanced degree of risk by analyzing the risk of various asset classes. While the strategy is more complex than traditional investing and often best done by professionals, it can help you build a long-term portfolio that is less dependent on traditional equity volatility, Wozniak says.

Protect against inflation.

SEI also uses inflation-protection strategies with all of its clients, Wozniak says. For conservative clients, it uses predominantly Treasury inflation-protected securities, or TIPS, as clients move up the risk spectrum, incorporates commodities and adjusts the client's exposure to inflation-sensitive equity sectors. "We typically are long inflation-sensitive areas of the market, including consumer staples, health care and telecom, and short less sensitive areas like consumer discretionary, info-tech hardware and materials, among others," Wozniak says. He recommends allocating anywhere from 5% to 15% of your portfolio to inflation protection, "with the higher amount in more aggressive, longer-term portfolios." If you use TIPS, commodities and inflation-sensitive equity allocations, he suggests allocating 50% to TIPS and 25% to commodities and inflation-sensitive equities.

Use annuities for safety and predictable income.

Another long-term strategy Busch likes for clients who need a little more safety and more predictable retirement income is the use of annuities. "Annuities can generate steady growth as well as a predictable income in retirement," he says. "This strategy is best used for investors that like the income guarantees, don't need the higher return potential of the full market and are also not comfortable with market volatility." Annuities are particularly appealing as a "safe money" alternative to bonds in a low-rate environment like the current one. "I like to refer to this as a 'paychecks and play checks' strategy, meaning someone who is accustomed to receiving a steady paycheck throughout their working career may like to establish a steady paycheck to cover living expenses in retirement, using a portion of their portfolio to purchase an income-producing annuity," he says. "This can give you confidence in your retirement plan and allow a little more freedom with your other investments to accomplish other goals."

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Peter Casciotta is the owner of Asset Management & Advisory Services of Lee County in Cape Coral, FL. Peter follows sound financial planning processes that address the key areas of your financial life while taking into account your future desired lifestyle.

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