THE LONG NOW FOUNDATION

Press Coverage

Sticking it out long-term

Web sites can help you maintain buy-and-hold discipline

By Jamie Heller, CBS.MarketWatch.com
Last Update: 10:40 AM ET April 8, 2002

NEW YORK (CBS.MW) -- Would you bet that the S&P 500 will rise 11 percent on average over the next 20 years?

That's the kind of wager many investors implicitly make when they buy a market-index fund or other investment for the long term. But how many wait around to find out if they've won?

Come a sector run or market downturn, the best-intentioned long-termers may sell to chase a trend or bail entirely. Possibly they cut losses or score gains, but the more likely scenario, historically, is that they pass up their chance at long-term payoff.

"Unless there is some force to keep people invested [long term], they tend to react emotionally," says Louis Harvey, president of Boston-based financial services research firm Dalbar. "Most people can't or don't" invest long term.

It's a habit that hurts. Dalbar found that between 1984 and 2000, the average equity mutual fund investor realized an annual return of only 5.32 percent a year, versus 16.29 percent for the S&P 500.

Of course, some people probably sold to finance things such as a home, education, or retirement. But others sell out of panic, or to free up funds in one area to pursue another.

Focus on the future

Investors, though, aren't the only impatient types. According to a recently formed nonprofit group, the Long Bets Foundation, we should all be more future-focused.

"Our attention spans are so short," says Kevin Kelly, a co-founder of the foundation. "The evidence of people not thinking long term is all around us."

An editor-at-large at futuristic Wired magazine, Kelly says the foundation was started partly in response to the short-term thinking that's dominated Silicon Valley in recent years.

"We're right in the middle of people frantically developing the new economy and all this good stuff and we noticed the shrinking time horizons of all of us," Kelly says. "This is one way we're trying to get out of the cycle of people being imprisoned to get out the next quarter of performance."

The Longbets.com Web site, just launched, is an arena where people can place bets about "societally or scientifically important" matters whose outcome won't be known for at least two years (there's no maximum time horizon).

Among the pending bets, "By 2030, commercial passengers will routinely fly in pilotless planes," and "the universe will eventually stop expanding."

Each bettor puts up the wager amount (at least $1,000) and names a charity. When the future finally arrives and a bet's outcome is clear, the winner's charity gets the dough.

In the meantime, it's invested with a special fund run by Los Angeles-based Capital Research and Management (advisor to the American Funds). The fund, called the Farsight Fund, has a mandate of a hundred-year time horizon, Kelly says.

Web sites for the patient

Of course, few individuals invest with the next century in mind. But if you want to work on your long-term money mindset, some Web sites can help.

Most sites concerned with long-term investing focus on one key move: Diversification. Spreading your money among a number of types of investment (e.g. stocks, bonds) and/or a number of investments within the investment type (e.g. small company stocks, large company stocks) -- can help ensure that you don't lose the bundle if one or two bets go awry.

It also helps to keep you from panicking out of your plan for fear you've got too much riding on one area or not enough on another. Diversification "tends to create more staying power because you do feel as though you haven't missed the action," says Roger Gibson, Pittsburgh investment advisor and author of "Asset Allocation: Balancing Financial Risk."

So where are the good sites to get started?

For the "whys" of the long-term, some fund company sites are helpful. Funds do have their own stake in the long-term mantra -- they typically take a percentage of your assets, no matter how well their funds are performing.

So they want you to buy and forget about it. But despite their self-interest, data makes a compelling case at least on a historical basis that long-term investing is in your interest, too.

Two good sites that explain why are Vanguard.com, the planning and advice section for relative beginners, and TweedyBrowne.com's Research & Reports area, for more advanced investors. (I own shares in funds of each family.)

If you've got questions you want to discuss with other individual investors, try Morningstar.com's Vanguard Diehards board, also accessible at http://www.diehards.org/.

For a specific action plan, check out FundAdvice.com, the site of financial advisor and CBS.MarketWatch.com contributor Paul Merriman. Even if you don't adopt it, his Ultimate Buy-and-Hold Strategy offers a good lesson in they whys and hows of building a long-term diversified portfolio.

If stocks are your bag, Foliofn.com and stock baskets at E-Trade (ET: news, chart, profile) provide one of the cheaper ways to purchase large numbers of stocks. For more about those sites, see this earlier column.

BuyandHold.com and ShareBuilder.com are other low-cost options targeted at investors who want to buy stocks in dollar amounts rather than by shares.

Also take a look at the "exchange-traded funds" described at http://www.ishares.com/. They're essentially index funds that trade like stocks. You get the benefits of diversification at a low cost and with some potential tax benefits.

Financial advisor Gibson didn't have much to suggest in the way of Web sites. "Whenever I think of what's going on on the Internet I think about people paying attention to statistical noise."

Finally, I asked Kelly of Long Bets for his take on buy-and-hold investing. "I hold. I have an E-Trade account where I don't sell anything. I've only bought. How is it doing? Rotten like everybody else."