

Buying and Holding – Simple but Safe

Buying stocks (or a collection of stocks) and then holding them until some profit appears, has always been seen as being the safest bet for investors. This is especially true for individual investors who do not wish to get involved in creating, analyzing and following what could appear to be complicated stock market models with relatively arcane names such as the Relative Strengths, Moving Averages and so on.

To evaluate how effective this simple stock market method truly was, we used our database to run buy and hold computer simulations on weekly prices that began from the 8th of January 1927 and extended down to the 3rd of January, 2003 – a 76 year evaluation period.

Our objective was to find out how risky it was for the average investor to adopt this strategy of buying into a stock market index and then holding it for a period of time.

For the purpose of this analysis, we used the Dow Jones Industrial Average and the Standard and Poor 500 Index (S&P 500) – two stock market indices that can now be invested in by the any investor by way of Exchange Traded Funds (ETF's).

The ETF symbol for the Dow Jones Industrial Average is **DIA**, whilst that for the S&P 500 Index is **SPY** and these two instruments may be purchased like any ordinary stock, through a broker.

For each date we invested \$5,000 and assumed a typical brokerage fee of \$25.00 would be charged on purchase. Against that date, we computed what the return would have been if this initial investment was left (**held**) for a series of fixed time periods of either 5, 10, 15, 20 or 25 years.

Our results (see **Table 1**) showed that:

- the longer the investment was left alone, the greater the probability that it was profitable.
- the longer your investments stayed in the market, the greater the chance that you had of making a 50% and even a 100% (i.e. doubling your investment) return (see **Table 2**).

The five graphs also best illustrate this phenomenon.

The graphs were plotted such that:

- The data at the point e.g. the 8th of January 1927, for the 5 year Buy and Hold chart, represents what amount in dollars, the individual investing \$5,000.00 at that date would expect to receive had he or she left their investment in the market for 5 years.
- Similarly, the data at e.g. the point 21st November, 1936, represents what amount in dollars the individual investing \$5,000.00 at that date (less brokerage fees of \$25.00) would expect to receive had he or she left their investment in the market for 5 years.

- Any amounts over the \$5,000.00 mark on these graphs represents the fact that a profit has been made, since it exceeds the initial investment of \$5,000.00.
- The fact that the majority of the graphs in the 25 Year, Buy and Hold chart lie above the \$5,000 line demonstrates that this is one of the most profitable of the Buy and Hold scenarios examined here. Essentially, the longer the money is left in the market, the greater the returns to an investor.

TABLE - 1

RESULTS - THE BUY AND HOLD STRATEGY

MONEY INVESTED FOR HOW LONG:	5 YEARS	5 YEARS
INDEX CHOSEN	DJIA	S&P 500
NUMBER OF WEEKS EVALUATED	3715	3715
NUMBER OF PROFITABLE WEEKS	2865	2927
% OF PROFITABLE WEEKS	77.12%	78.79%

MONEY INVESTED FOR HOW LONG:	10 YEARS	10 YEARS
INDEX CHOSEN	DJIA	S&P 500
NUMBER OF WEEKS EVALUATED	3465	3465
NUMBER OF PROFITABLE WEEKS	2944	2971
% OF PROFITABLE WEEKS	84.96%	85.74%

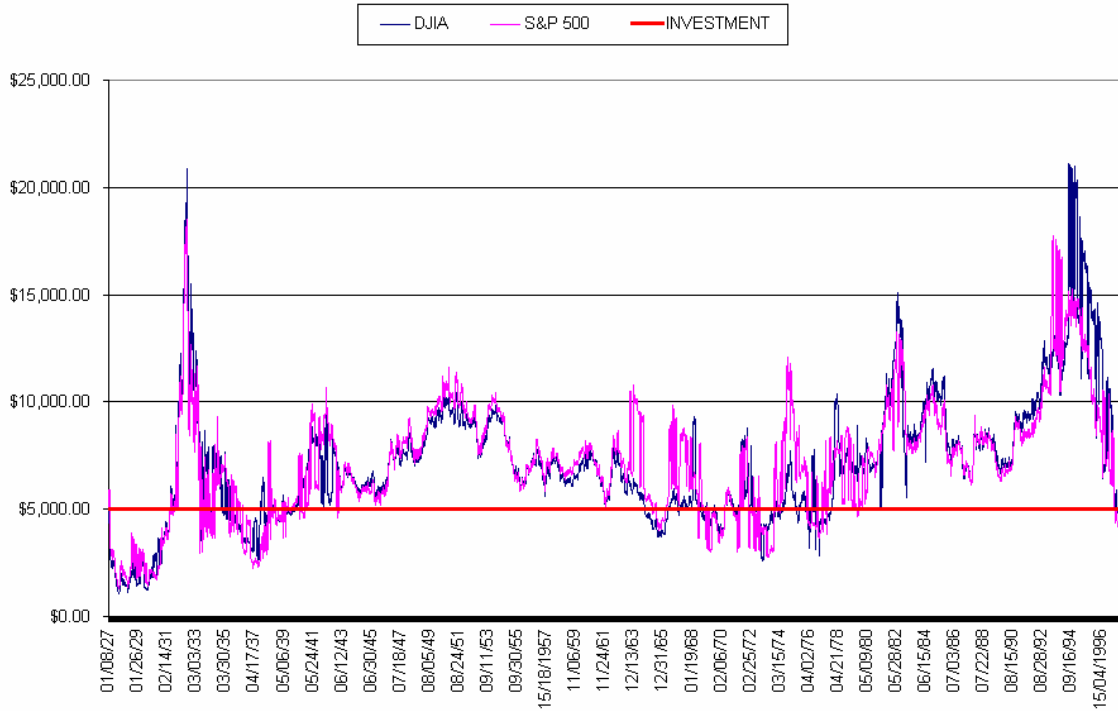
MONEY INVESTED FOR HOW LONG:	15 YEARS	15 YEARS
INDEX CHOSEN	DJIA	S&P 500
NUMBER OF WEEKS EVALUATED	3215	3215
NUMBER OF PROFITABLE WEEKS	2837	2977
% OF PROFITABLE WEEKS	88.24%	92.60%

MONEY INVESTED FOR HOW LONG:	20 YEARS	20 YEARS
INDEX CHOSEN	DJIA	S&P 500
NUMBER OF WEEKS EVALUATED	2965	2965
NUMBER OF PROFITABLE WEEKS	2796	2790
% OF PROFITABLE WEEKS	94.30%	94.10%

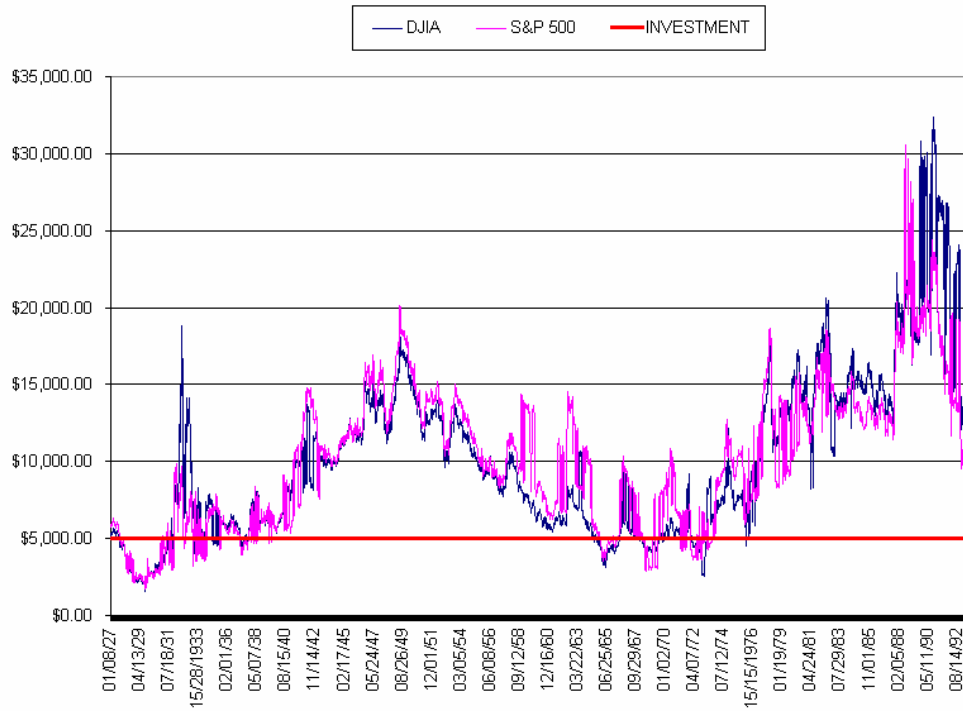
MONEY INVESTED FOR HOW LONG:	25 YEARS	25 YEARS
INDEX CHOSEN	DJIA	S&P 500
NUMBER OF WEEKS EVALUATED	2715	2715
NUMBER OF PROFITABLE WEEKS	2667	2684
% OF PROFITABLE WEEKS	98.23%	98.86%

TABLE 2		
INCREASING YOUR INVESTMENT WITH PATIENCE		
BUY AND HOLD PERIOD	5 YEARS	5 YEARS
INDEX CHOSEN:	DJIA	S&P500
NUMBER OF WEEKS EVALUATED	3715	3715
NUMBER OF RETURNS GREATER THAN 50%	1382	1677
PERCENTAGE OF RETURNS GREATER THAN 50%	37%	45%
NUMBER OF RETURNS GREATER THAN 100%	475	451
PERCENTAGE OF RETURNS GREATER THAN 100%	13%	12%
BUY AND HOLD PERIOD	10 YEARS	10 YEARS
INDEX CHOSEN:	DJIA	S&P500
NUMBER OF WEEKS EVALUATED	3465	3465
NUMBER OF RETURNS GREATER THAN 50%	2088	2291
PERCENTAGE OF RETURNS GREATER THAN 50%	60%	66%
NUMBER OF RETURNS GREATER THAN 100%	1559	1744
PERCENTAGE OF RETURNS GREATER THAN 100%	45%	50%
BUY AND HOLD PERIOD	15 YEARS	15 YEARS
INDEX CHOSEN:	DJIA	S&P500
NUMBER OF WEEKS EVALUATED	3215	3215
NUMBER OF RETURNS GREATER THAN 50%	2293	2493
PERCENTAGE OF RETURNS GREATER THAN 50%	71%	78%
NUMBER OF RETURNS GREATER THAN 100%	2293	2493
PERCENTAGE OF RETURNS GREATER THAN 100%	71%	78%
BUY AND HOLD PERIOD	20 YEARS	20 YEARS
INDEX CHOSEN:	DJIA	S&P500
NUMBER OF WEEKS EVALUATED	2965	2965
NUMBER OF RETURNS GREATER THAN 50%	2346	2711
PERCENTAGE OF RETURNS GREATER THAN 50%	79%	91%
NUMBER OF RETURNS GREATER THAN 100%	2131	2316
PERCENTAGE OF RETURNS GREATER THAN 100%	72%	78%
BUY AND HOLD PERIOD	25 YEARS	25 YEARS
INDEX CHOSEN:	DJIA	S&P500
NUMBER OF WEEKS EVALUATED	2715	2715
NUMBER OF RETURNS GREATER THAN 50%	2542	2541
PERCENTAGE OF RETURNS GREATER THAN 50%	94%	94%
NUMBER OF RETURNS GREATER THAN 100%	2218	2511
PERCENTAGE OF RETURNS GREATER THAN 100%	82%	92%

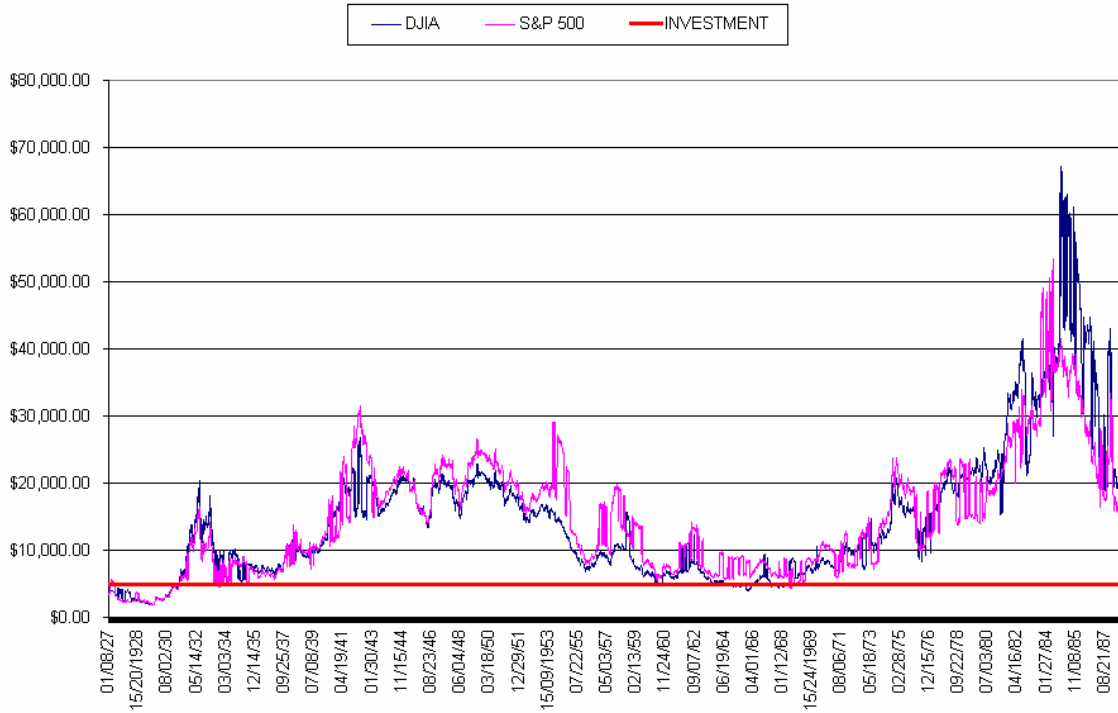
5 YEAR BUY AND HOLD RETURNS



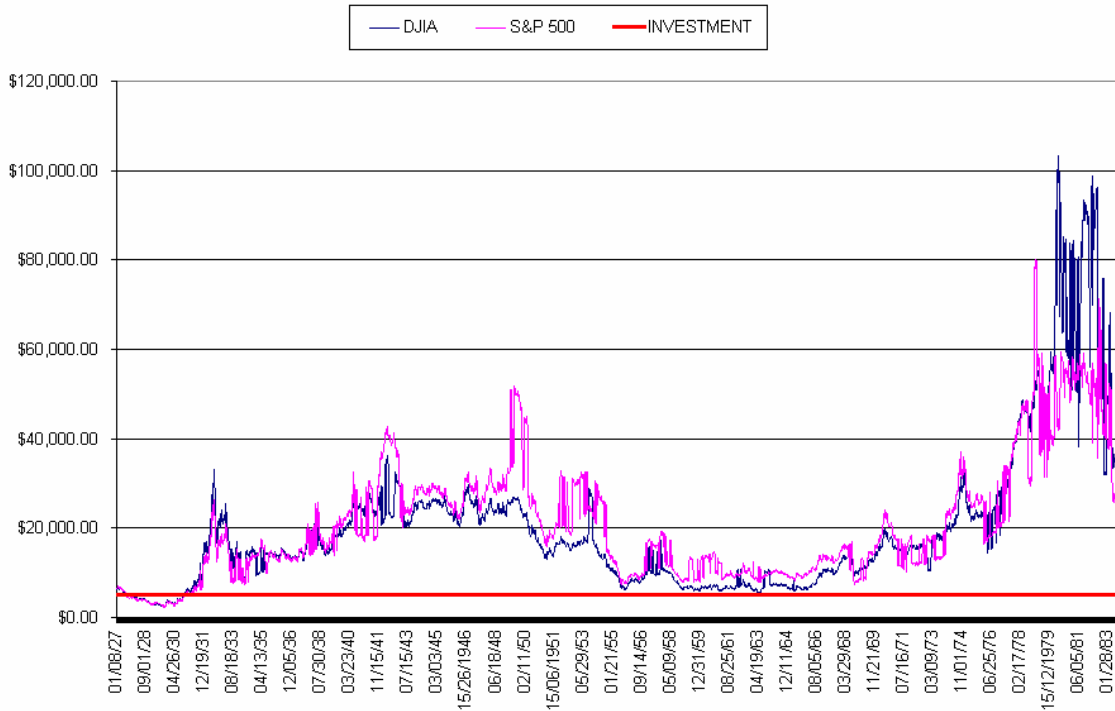
10 YEAR BUY AND HOLD RETURNS



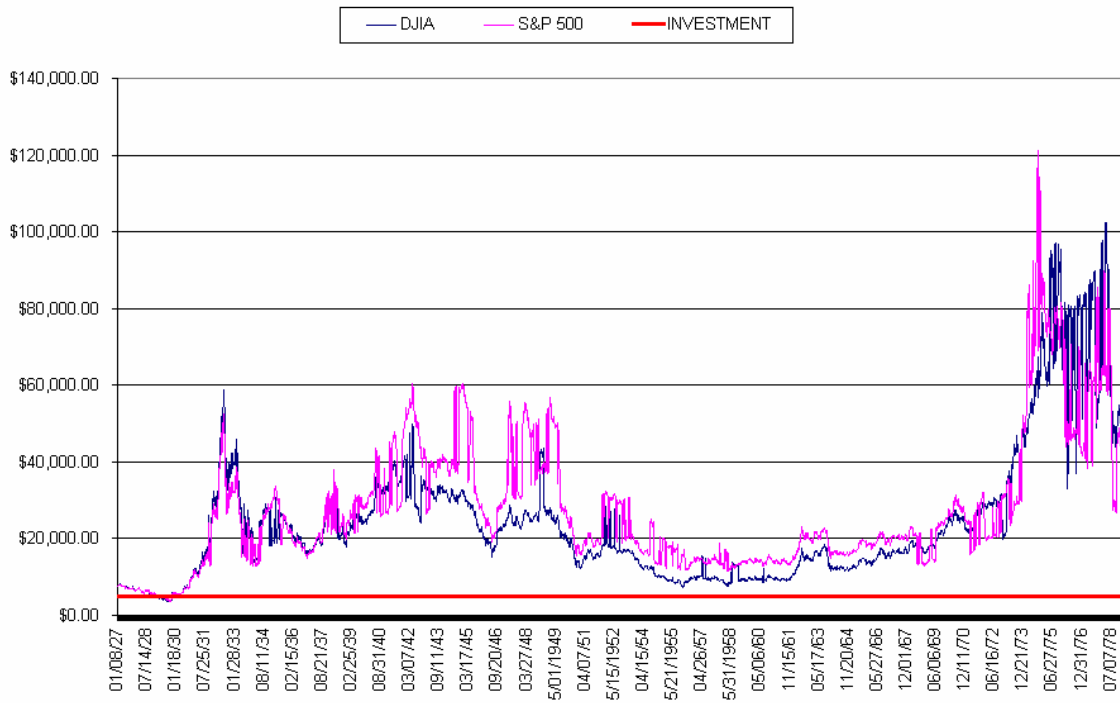
15 YEAR BUY AND HOLD RETURNS



20 YEAR BUY AND HOLD RETURNS



25 YEAR BUY AND HOLD RETURNS



SRT
SDG