BROADHURST
Financial Advisors, Inc.

Inverted Odds

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Let's say you walk into a casino, where people are somewhat cautiously placing bets everywhere around you, and you notice something very odd about this particular casino: on average, most of the people are winners; that is, they are making money on their bets. You ask around and discover that this particular casino has been paying out more, to its bettors, than they've put in—for many decades.

But there's a catch. (Isn't there always a catch?) In this casino, the most common losers are those who make short-term bets. The payoffs typically come from longer-term bets that play out over time. In other words, this casino tests your patience, and if you pass, you make money—or, at least, you would have over the casino's history.

Chances are, after this experience, you'd feel like you'd found the key to riches, and want to go to this imaginary magical casino as often as possible. But you might be surprised to know that this casino actually exists. It isn't located in Nevada or Atlantic City, or any of hundreds of Native American reservations. It's our plain old boring stock market.

As you can see from the accompanying chart, there is a very good chance that somebody who put money into the market and left it there for a decade or more would have come out with more than he or she put in, and in some cases the 'payoff' is pretty dramatic. The odds go up if you put in money over time, the way many workers do when they save and invest for retirement.

There is, of course, a difference between an environment where the odds of winning games of chance are slightly less than 50%, and betting that companies will grow over time. Due to all their (collectively) millions of workers arriving at the office in the morning and working for eight hours to add value to the enterprise, companies tend to grow incrementally more valuable each day by imperceptible margins. The collective benefit of all that work shows up, eventually, through various ups and downs, in the growth of the stock price for most companies over most longer-term time periods, and the bettors (investors) are the beneficiaries.

Sources:

https://www.macrotrends.net/2324/sp-500-historical-chart-data

If you have any questions about this article or want to discuss your family finances, investment portfolio, or financial planning advice, please call on me anytime at my number (215) 325-1595 or you can click here to schedule a meeting.

Please feel free to forward this article and offer to anyone you know who might have financial questions or need some unbiased advice. Most financial advice is sales advice. In stark contrast, we are fee-only (non-commissioned) fiduciary advisors. We just provide truthful, unbiased advice to our clients.

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