What Will Your Investments Be Worth in Five Years?

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We invest for the future. How well that works out depends on two things. What will your investments be worth in five years, ten years, or twenty years as valued in dollars? And, what will inflation do to the purchasing power of the US dollar? There is a fair amount of debate today as to whether we are going into a 1970s-style stagflation or if prices are simply up now due to supply chain issues and will go down when the Covid pandemic finally subsides. The other issue is what will happen to your investments when fundamentals start to determine stock prices again.

Effect of Inflation of Purchasing Power

As we noted in our article about saving with negative interest rates, traditionally safe, interest rate-bearing investments today are actually losing money. *The New York Times Dealbook* for 10/14/21 discusses how everything is getting more expensive and how that is causing problems for the Fed and White House. Because you want to be able to use your invested and saved money to live on and do things with over the years, you have a problem with “safe” investments like CDs and Treasuries and need to stick with the stock market to stay ahead of the effect of inflation on investment value. Unfortunately, there are value concerns today about the ability of the market or at least all parts of it to keep rolling forward at the same pace as over the last decade.

When Fundamentals Start to Determine Stock Prices Again

As the prices go up the Fed is going to have to raise interest rates and dial back on their quantitative easing measures. We are already seeing reticence in Congress in regard to what everyone pretty much agrees is necessary funding of infrastructure repairs and improvements due the stagflation concerns. The “talking heads” on business news sites like Bloomberg are starting to talk about what companies like Tesla or Amazon will be worth in five or ten years. The issue is that many companies have stock prices that assume continued fast growth when the companies have grown to a mature status in their business niche. An opinion that is gaining ground is that prices of many of the tech leaders of the last few years are going to adjust to a lower rate of growth or even back off a bit as investors come back to the use of intrinsic stock value as a way to judge when investing in stocks over the long term.

Investing With a Five to Twenty Year Investment Horizon

When asked what his preferred length of time to hold was, Warren Buffett replied, forever. His point was that when you pick the right company with the right business plan, strength in their market niche, customer loyalty, and global product recognition, you will want to keep that stock as it grows in value, pays dividends, and stays well ahead of the effects of inflation. The strongest argument for investing in the stock market is that the US stock market outperforms other investments over the years, providing that you stay invested and that you pick investments like ETFs that track the S&P 500 and thus reflect the overall market. The key to this approach is having an investment horizon of at least five to ten years. The obvious reason for this approach is that some years are good, some are bad, others are awful, and some are spectacular in the market. And, because predicting which years will be the best and the worst is not always that accurate, simply staying in the market for years is the most effective for successful investing over the years. By doing so your investments in five, ten, or twenty years are more likely to stay ahead of inflation and help you achieve a comfortable retirement.

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