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12 questions to ask before investing

What is my time horizon?

"In investing, one of the greatest assets you have is time. Time allows you to invest a little or gain a lot – through the power of compound returns"
- Kojo Addae-Mensah
Databank Group CEO

Time horizon defined

Time horizon is simply how long you intend to hold an investment before withdrawing a significant amount of the money. It can span from a few days to decades. Generally, time horizon is classified into short, medium and long term. An investment held for less than 2 years is considered short term. Medium term refers to an investment time horizon of between 2 and 5 years, while an investment held for more than 5 years is considered long term.

How do I know my time horizon?

It is quite simple to determine your time horizon. Ask yourself: "How long do I plan to invest before I withdraw all or most of the money?" To answer this question accurately, you may need to know why you are investing in the first place. Your investment objective is strongly linked to your time horizon. Let's look at three investors and see how their objectives can help to determine their investment time horizon.

	Ayisha 	Selorm 	Kuukuu 
Investment objective	To buy a new laptop	To purchase a home	To fund retirement
When	In 6 months	In 4 years	In 25 years
Time horizon	Short	Medium	Long

Why time horizon is important

Investments are categorized according to their time horizon (recommended holding period), in addition to their risk and return profiles. The recommended holding period helps the investor get the most out of his or her investment as different investments tend to perform differently over time. Fixed income investments (e.g., Treasury Bills, bonds or fixed-income mutual funds) are relatively stable and tend to give returns with very little volatility (sharp upward or downward movements). Equity investments, like shares or equity funds, experience fluctuations and as a result can give either very low or very high returns. Historically, the average annual performance of equity investments over the long term has outperformed that of fixed-income and balanced investments.

So, if you have the right risk appetite and time horizon, it is good to consider building an investment portfolio that has a mix of both fixed income and equity investments.

The longer, the better

They say little drops of water make a mighty ocean. If you had to fill a big barrel with water from a dripping tap, would you leave the barrel there for a few minutes, a few hours or a few days? It is safe to assume that the longer you leave the barrel, the higher your chances of getting it filled. Similarly, in investing, the longer you leave your money invested, the higher your chances of growing it exponentially – thanks to compound interest. If you have the choice between investing for a short time or a long time and your investment is not tied to a time-bound objective, decide to invest over the long term. The longer you stay invested, the more opportunity you give your funds to grow.

Invest wisely. Invest with Databank.