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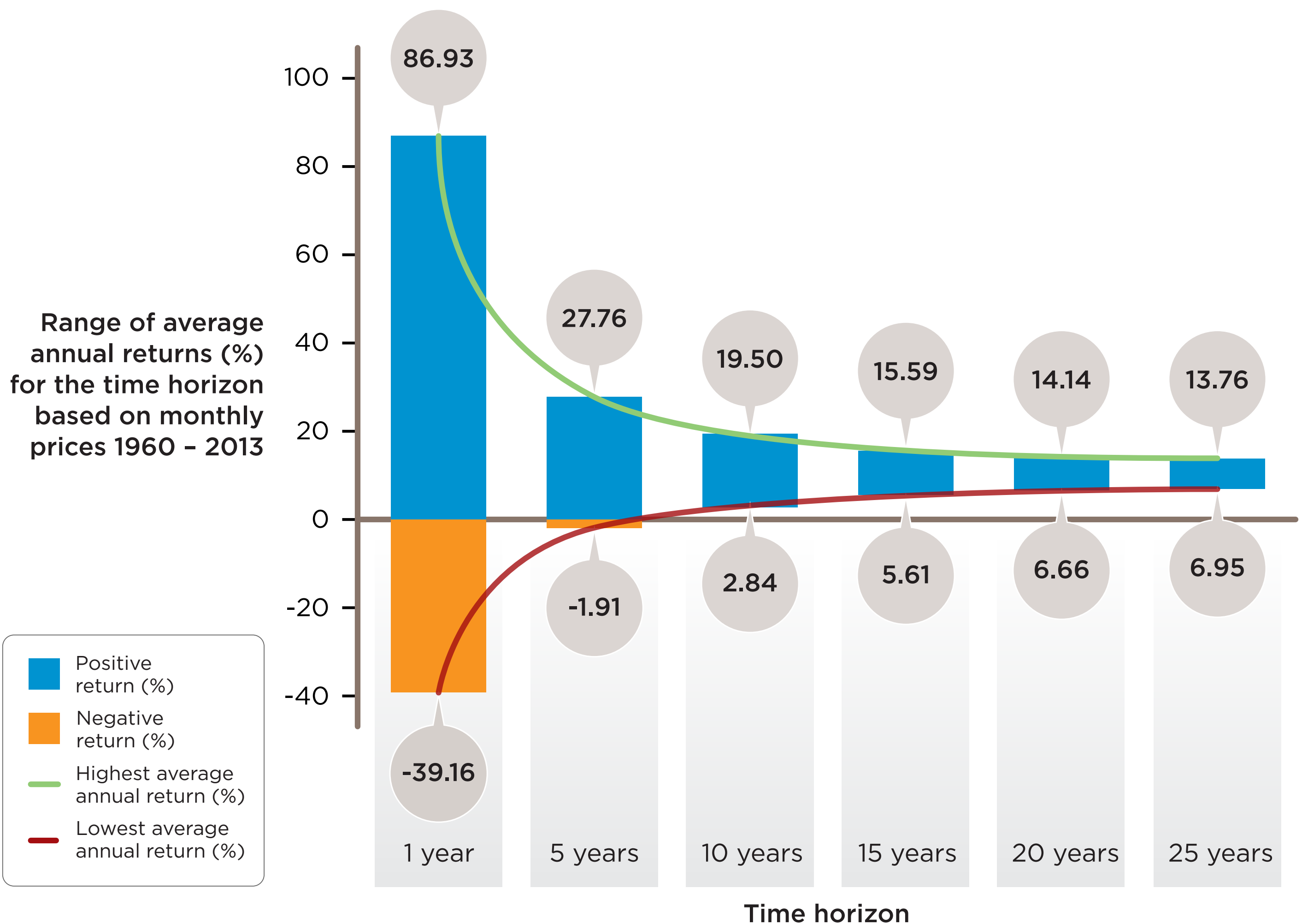
How time horizon affects risk and return

A longer time horizon is associated with lower **volatility**. Over shorter periods of time, stocks are exposed to higher risks. But over longer periods of time, stocks have historically produced positive returns that can offset short-term risks. This doesn't mean that stocks are not risky over the long term, but for long-term investors, stocks are more likely to provide higher returns.

How the average annual return of a diversified stock portfolio changes with the time horizon



Calculations developed by Investor Economics, based on Bloomberg data, April 2014.

This graph shows how highest and lowest average annual returns of a diversified stock portfolio for different time horizons varied between 1960 and 2013. The annual return becomes less variable as the time horizon becomes longer.

Learn more about the **relationship between time horizon and risk**.

Notes: The graph simulates a diversified Canadian stock portfolio using the TSX Total Return Index, which captures the effect of reinvested dividends. It does not capture costs, such as brokerage commissions and management fees, that would reduce your returns in actual investing. The graph shows the variability of annual returns from investing at the end of any month of the year over the time horizon for the period from 1960 to 2013. Monthly data (rather than annual data) offers a more realistic look at return variations an investor will typically experience.