

16 Lecture - MGT401

Important Subjective

1. What are some common examples of long-term investments?

Answer: Common examples of long-term investments include stocks, mutual funds, real estate, and bonds.

2. Why is diversification important in long-term investments?

Answer: Diversification is important in long-term investments to minimize risk and increase the likelihood of generating returns. By spreading investments across different asset classes, industries, and geographic regions, investors can protect themselves against market fluctuations and reduce exposure to any one specific risk.

3. How does compound interest benefit long-term investments?

Answer: Compound interest benefits long-term investments by allowing returns to be reinvested and earn even more returns over time. As the investment grows, the amount of compound interest generated also increases, creating a powerful wealth-building effect over the long term.

4. How does a buy-and-hold strategy work in long-term investments?

Answer: A buy-and-hold strategy involves purchasing an investment and holding it for an extended period, typically 10 years or more. This approach is designed to take advantage of long-term market trends and minimize the impact of short-term fluctuations. By holding investments for the long term, investors can potentially benefit from the power of compound interest and generate greater returns.

5. What are some common risks associated with long-term investments?

Answer: Common risks associated with long-term investments include market risk, inflation risk, interest rate risk, and liquidity risk. Market risk refers to the possibility of losses due to changes in the value of investments, while inflation risk refers to the impact of rising prices on the purchasing power of returns. Interest rate risk refers to changes in the cost of borrowing, which can affect the value of fixed-income investments. Liquidity risk refers to the possibility of not being able to sell an investment when needed.

6. What are some strategies for managing risk in long-term investments?

Answer: Strategies for managing risk in long-term investments include diversification, asset allocation, and regular portfolio rebalancing. By diversifying across different asset classes and sectors, investors can minimize exposure to any one specific risk. Asset allocation involves spreading investments across different types of assets, such as stocks, bonds, and real estate. Regular portfolio rebalancing involves adjusting investments to maintain a desired asset allocation and minimize risk.

7. How can investors determine their long-term investment goals?

Answer: Investors can determine their long-term investment goals by considering factors such as their age, income, financial situation, and risk tolerance. Some common long-term investment goals include saving for retirement, funding a child's education, and building wealth over time.

8. What are some benefits of investing for the long term?

Answer: Benefits of investing for the long term include the potential for higher returns, the power of compound interest, and greater financial stability over time. By taking a long-term approach, investors can avoid the temptation to make short-term trades based on market fluctuations, which can lead to losses and missed opportunities.

9. How can investors stay informed about their long-term investments?

Answer: Investors can stay informed about their long-term investments by regularly reviewing their portfolio and monitoring market trends. They can also consult with a financial advisor, who can provide guidance on investment strategy and risk management.

10. What are some potential drawbacks of long-term investments?

Answer: Potential drawbacks of long-term investments include the possibility of market losses and the lack of liquidity in certain types of investments. Additionally, long-term investments may not be suitable for investors who need access to their funds in the near term, as they often require a significant commitment of time and capital.