What is a long term investment and what are its benefits?

The famous saying, "patience is a virtue", can be applied to many aspects of life, your investments being one of them. Patiently waiting for your money to compound and create wealth may seem frustrating when you start. But the longer the tunnel, the brighter the light is likely to be at the end. A **long term investment** can be beneficial in several ways. Find out what these are and how these investments work.

When is an investment considered long term?

An investment is considered long-term when you hold it for at least a year or more. Ideally, **mutual fund investment plans** held for three years or more can be termed long term. Certain securities like stocks, **equity mutual funds,** etc., can be extremely volatile in the short term. One way to lower the risk is to hold the investment for a long term. Depending on your goals, this could be three, five, 10, 20 years or even more. The long term acts as a buffer against short-term market volatility and helps your money compound more, ultimately creating a large corpus for your goals.

Benefits of long term investments

Long term investment can have many advantages. Read on to know more:

1. **Power of compounding**: The power of compounding is one of the most incredible benefits of a **long term investment** in a mutual fund. Here's what happens. The returns you earn from your investment are invested back into the market along with the principal amount. This considerably increases your investment's value over time and helps you create a large corpus at the end of the term. The longer you stay invested, the more returns you can generate with compounding.

2. **Lower risk:** A long term helps you ride out short term market highs and lows. It offers your money enough time to earn returns and grow without being hampered by short term fluctuations. Even if your investments slump in the short term, they are likely to bounce back in time. A longer-term gives your money the room to grow.

3. **Tax savings**: Long term investments can help you with **tax planning**. Your gains are taxed as short term capital gains and long term capital gains (STCG and LTCG). The tax for both these categories is different. LTCG tax is charged at 20% with indexation for investments held for over three years in debt mutual funds. LTCG tax on equity mutual funds is charged at 10% on gains over Rs. 1 lakh/year. LTCG tax can offer you better tax savings than STCG tax, which is charged at a flat 15% on gains for equity funds and as per your income tax slab for debt funds.

4. **Reduced investment burden:** When you **buy mutual funds online** or even otherwise for the long term, you can opt for easier methods of investments like **SIPs.** A Systematic Investment Plan lets you invest smaller quantities at your preferred frequency in a mutual fund scheme of your choice. Compared to a lump sum investment, SIPs help you break down the investment cost into more manageable and budget-friendly instalments.

5. **Ideal for long term goals like retirement:** A **long term investment** in mutual funds can be an excellent way to plan for your golden years. **Equity mutual funds** may be ideal for retirement planning as they can offer high returns in the long run. Even though the risk involved is high, a long term approach can help you ride out market bumps.

Conclusion

A **long term investment** can help tackle market volatility and create wealth for various long term goals like retirement, a child's higher education or wedding expenses, and more. As long as you **buy mutual funds** that fit your goals, you can expect to reach targets in the stipulated time.