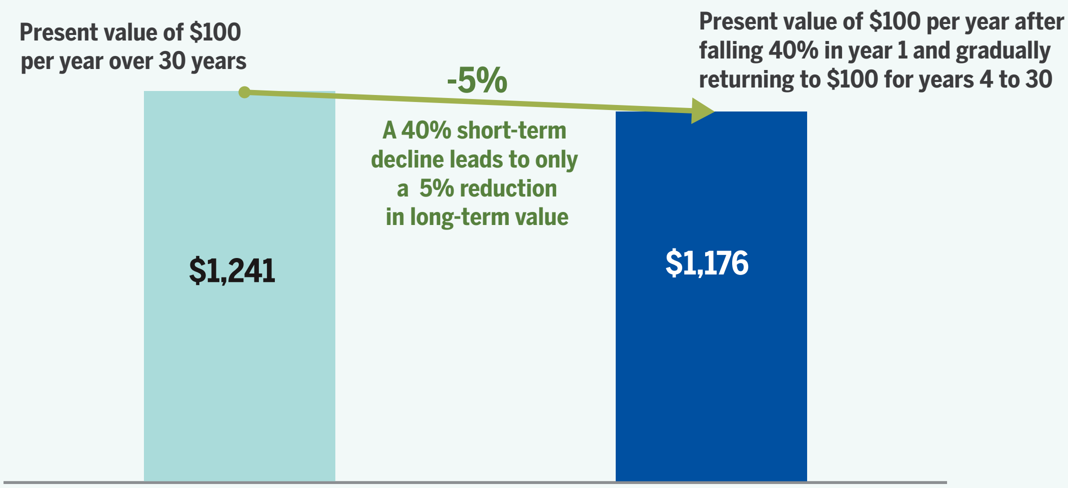
# Stay Focused on the Long Term

When stocks suffer a significant decline in near-term earnings or cash flows, not unlike the current period, investors may instinctively worry about whether they should sell. However, cash flow modeling demonstrates why you may want to hold on to a quality portfolio for the long term.

## Short-Term Changes May Have Small Impact on Long-Term Value




Source: Alger.
Note: Both values are based on discounted cash flow using a 7% cost of capital.

- The chart above demonstrates that a hypothetical investment whose earnings or cash flows decline 40% in the first year may not see a large reduction in value over a long-term time horizon.
- This scenario could potentially play out this year, as earnings in 1H20 are under significant stress for many companies. In our view, this data shows that focusing on high-quality companies—ones that we believe have durable business models that produce stable long-term cash flows in the long run and have strong management teams, competitive advantages and innovative products—may overcome short-term earnings or cash flow stress.
- While a significant decline in aggregate earnings can be scary and potentially move stock prices violently, we believe that a portfolio of strong companies may retain its value over time as the market recognizes the stability of companies' cash flows in the long term.

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