CORPORATE FINANCE AND STRATEGY

Long-Term Thinking Attracts Long-Term Investors

By Ed Newman and Dan Riff

ARTICLE JANUARY 13, 2026

> *The single greatest edge an investor can have is a long-term orientation.*
>
> —Seth Klarman

Management teams talk endlessly about customers, competitors, and employees. Far fewer think about the composition of their shareholder base. That's a mistake.

Your investor base is not random; it reflects two things: the fundamentals of your competitive position and earnings power, and the style in which you manage and communicate. If you dress up short-term earnings, you will attract traders who rent your stock and disappear at the first sign of volatility. If you play the long game, you will attract patient owners.

In both cases, you get exactly the investors you deserve. To achieve sustained success, companies need committed, quality investors—and you must work to attract them.

What Drives Quality Investors?

First and foremost, quality investors operate on a long time horizon, measuring outcomes over multi-year periods. This mindset is ideal as it matches the time frame over which a company's strategic decisions play out.

They also maintain the discipline to focus on fundamentals that matter most to value creation over a longer horizon, including:

Competitive advantage. They look for businesses with something difficult to replicate, such as cost positions, networks, or customer stickiness. They understand and reward long-cycle investments that reinforce and compound underlying sources of sustainable differentiation.

Capital allocation. Quality investors see capital allocation as one of the primary jobs of a management team. They want businesses with prudent strategies to deploy capital at high returns and managers who think like owners—reinvesting aggressively when the opportunity is compelling and returning cash to shareholders when it isn't. They prefer managers who base share buybacks on a view of intrinsic value rather than goosing EPS or imitating peers, and who invest sufficiently in both M&A capabilities and track record before pursuing needle-moving deals.

Earnings quality and free cash flow. Long-term shareholders don't confuse accounting profits with economic value. Durable earnings are those that consistently convert into cash after the reinvestment needed to sustain the business. No bank will cash an "adjusted EBITDA" check. Cash generation is the acid test; everything else is noise.

Long-Term Investors Offer Real Advantages

Quality investors operate on a longer time horizon, and their patience pays off—both for their portfolios and for the companies in which they have a stake. Research clearly shows that companies that have a higher share of long-term owners systematically deliver higher returns than those with more short-term holders. And by a large margin—firms in the top-decile of investor time horizon generate annual returns *six percentage points* higher than firms in the bottom decile.

Beyond strengthening a company's bottom line, managers also can derive benefits from having more long-term investors. These include:

License to invest. The best competitive strategies often require deferred gratification—committing resources today for advantage and value creation tomorrow. Patient capital from long-term investment gives management the cover to make those commitments. Without that backing, long-term bets can often look like career risks—which can make managers reticent to act.

Stability in turbulence. When markets sell off, quality investors provide liquidity instead of fleeing. They absorb volatility rather than amplifying it. And they believe lowest average cost wins, buying the dips from a short term market's overreactions to smooth out stock price journeys.

Discipline, not distraction. Serious long-term investors bring perspective. They have pattern recognition across industries and cycles, and they know how other investors will interpret your moves. Their input keeps management grounded in fundamentals, not quarterly theater.

Avoiding the treadmill. A base of short-term shareholders is like a leaky fuel tank. Management spends endless energy topping it up—beating guidance, staging buybacks, manufacturing sentiment—but the car is running on fumes. Long-term investors provide the fuel to go the distance, with managers aiming for further horizons.

How to Attract Patient, Quality Investors

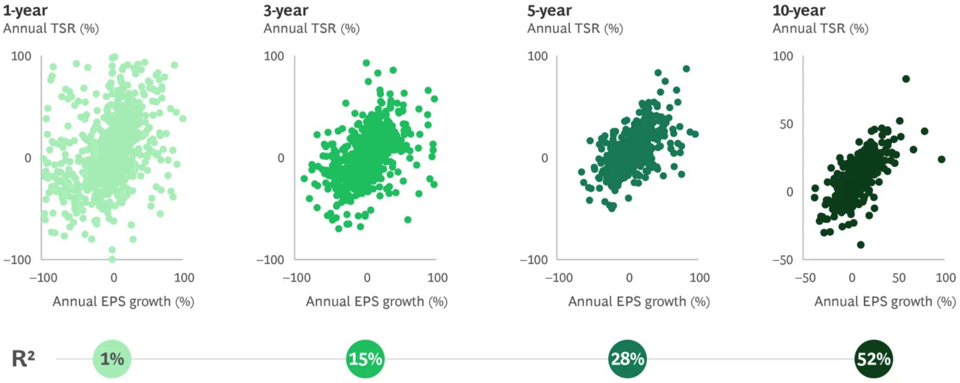
While investor decisions generally begin with business fundamentals, several actions can help land your company on long-term investors' "buy" list.

Avoid the earnings-per-share trap.

This point is key. Elevating EPS as the primary measure of a company's success may gain the attention of potential investors, but EPS is, at best, a crude accounting proxy. It does not correlate well with long-term shareholder returns, even across multi-year horizons. (See exhibit.)

In addition, focusing on EPS often leads to counterproductive management behavior. It routinely pushes companies into destructive tradeoffs—cutting investment, starving innovation, or engineering buybacks at the wrong time—in order to protect a near-term number. For example, in a survey conducted at BCG's annual CFO conference in 2017, more than 40% of CFOs admitted to sacrificing attractive long-term investments to hit EPS targets.

Short-Term EPS Growth Does Not Correlate with TSR, and Long-Term EPS Does Not Reliably Predict TSR Outcome



Sources: S&P Capital IQ, BCG ValueScience®.
Note: Analysis based on rolling 1-, 3-, 5-, and 10-year windows between 2014 and 2024. For legibility, only latest period displayed in each time frame and values displayed are bound between –100% and 100%. EPS based on management adjusted figure. Companies based on non-FI and non-REIT S&P 1500 constituents between 2014 and 2024 (N = 1,089).

Short-term investors want EPS to be the center of the conversation because they have no interest in the drivers of value beyond the next quarter. But quality investors look through EPS, focusing instead on the fundamentals that provide real signals of success, as noted earlier.

Show conviction through capital allocation.

Words are cheap. Cash is not. Where you put money tells investors exactly what you believe. Spending to deepen advantage signals conviction, while spending to dress up the quarter signals weakness.

Be transparent.

Long-term owners can absorb setbacks. What they cannot absorb is deception. Spin corrodes trust; candor builds it. Admit bad news when it comes, and explain the tradeoffs. And your anecdotes must extrapolate—don't cherry pick examples that can't be reliably repeated and underwritten.

Connect short to long term.

The long term is nothing more than the sum of short terms. Make the connection explicit, stating how today's actions tie into the larger plan. Use nonfinancial KPIs—customer retention, innovation milestones, market share gains—as the bridge. They create real accountability in the short run without falling into the EPS trap.

Prove alignment with the company mission.

To attract long-term shareholders, managers must be owners themselves—holding meaningful equity for the long haul. Nothing else signals commitment as clearly.

Master the Power of Saying Less

We live in an age of information everywhere all the time. Yet many companies that attract long-term shareholders do not rely on traditional investor relations machines. They provide clear, well-supported materials, but they don't attend many conferences, publish quarterly decks, or spend excessive time on investor calls. They clarify their philosophy and strategy—and then let their actions and results speak for themselves.

One striking example is Monster Energy, which has a 25-year TSR of 32.7% versus market darlings like Nvidia (29.1%) and Amazon (20.9%). The company achieves better compounding without the roller coaster ride of growth tech.

Monster Energy takes this more quiet approach. The company is steered by two founders with multi-billion-dollar stakes. They don't issue guidance or attend conferences. They rarely host investors. And they retain an owner base that buys the dips; ignores the noise (health scares, new entrants, innovation hiccups); and pursues a "lowest average cost wins" approach to owning this compounding machine.

The company's management does, however, share bread crumbs on earnings calls and episodic investor business updates to those paying close attention. These reward those deepest in the game who can interpret the clues and refresh their underwriting cases—instead of overreacting to short-term share swings or margin investments to expand future market opportunities.

Work to Gain Investors Who'll Work for You

A shareholder base anchored by loyal, patient investors is a competitive advantage. But this does not occur through luck. It is the consequence of your fundamentals, the way you run the company, and who you spend your time with amongst investors.

Most importantly, act in sync with investors who share your goals. Steer away from high-velocity hedge funds and market neutral "pod shops." Land naturally in whatever indices and ETF baskets that make sense to attract active "index huggers."

It's often said that energy flows where attention goes. Focus on long-term business success, and you'll be rewarded with a core of quality investors who share your vision and are committed to the company's journey.

Authors

Ed Newman

Managing Director & Partner
Chicago

Dan Riff

Partner & Director
Boston

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