A DIFFERENT APPROACH TO INVESTING (PART 2)

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In part one of this three part series, which could have been subtitled **"We don't gamble"**, I made the case that relying on market predictions or outlooks – given their persistently abysmal track record - is more akin to gambling than it is to investing. Of course, we're in the 'business' of *investing*, NOT the gambling business. In follow up to that piece, I was reminded of a famous quote from Yogi Berra,

"It's tough to make predictions, especially about the future".

To be clear, it is my job to remain cognizant of any current events that may impact your portfolio. These matters are to be kept in mind while managing your money - and expert opinion is to be, perhaps at a minimum, taken under advisement. Nonetheless, it is my view that such typically short-term issues are never to *formulate* the core underpinnings of anyone's long-term investment strategy. The "news" of the day may have an *influence* on the portfolio – at the margin, but should never be the driving force behind it. Rather, your portfolio should be designed around factors that are far more "knowable" in an investment world full of unknowns. These should include your long-term financial objectives, your tolerance for risk, your cash flow needs, and most important – your investment time horizon. These don't change on a whim, regardless of the doom du jour.

Enough said - onward and upward. For this, the second part in the three part series, I'd like to key in on another way in which our approach toward investing is different than most others; **we think long-term**. As I've stated in past missives, "*short-term investing*" is an oxymoron. If your time horizon is "short" (i.e. less than a few years), you are not an investor, you are a *saver*. A saver isn't looking to *invest* their money – they're simply looking to keep it, and hopefully earn a little interest. Not sure how this can or should ever be confused with actual investing, where the objective is obviously to make the money grow over time!

Of course, in today's ultra-low interest rate environment a short-term saver needs to know that – even with some interest – they're not actually making any money over the course of any 12 month period. Subtract inflation and taxes from the interest and you're in the red. This should not be a huge concern though. As mentioned above, the main objective of a saver is to *protect* the money in order to safely meet a short-term goal (i.e. a family vacation, new roof on the house, new car, etc.). Attempting to actually grow the money, with real returns net of inflation and taxes, would require taking on risks that a short-term saver simply cannot accept. To the contrary *long-term* investors seeking real growth cannot afford the "risk" of playing it too safe. Inflation and taxes are headwinds for those seeking growth over time, not someone with a goal that requires short-term use of the funds, where inflation's impact will have far less of a bearing.

If true investing is to be the domain of those with at least somewhat of a longer time horizon, why is it that so many take such a short-term point of view? As has often been stated in the world of investing,

"Patience is the rarest commodity on Wall Street".

One culprit may be the very attitude many investors have toward owning stocks. Others (not us!) seem to view a stock as merely a piece of paper, rather than focusing on what they really own – an investment in an actual, underlying business. Perhaps one of the fundamentals to Warren Buffett's success is the fact that he takes a very 'business-like' approach to investing in stocks. As a business owner, he isn't swayed by the latest (typically negative) media headlines of the day. Further, he knows that the shorter you hold a stock the more likely you are to lose money. As such, he typically invests in these businesses for a very long time, and is not prone to trading them like pieces of paper. Here's a related quote on the matter from Mr. Buffett himself,

"Calling someone who trades actively in the market an investor is like calling someone who repeatedly engages in one-night stands a romantic."

Is there such a thing as a *short-term* business endeavor? I guess there could be, in relation to some others. But I can't imagine anyone who actually plans to be in business for the *short-term*. Why then, should we treat the various investments making up your portfolio of sound businesses any different?

Allow me to ask, *what are the greatest risks to a long-term investor today*? Some might suggest the correct answer is Donald Trump OR Hillary Clinton. Others may argue that European banks, Brexit, China's slowing economy, or a Fed rate hike are surely among our biggest concerns. This is by no means a complete list, of course. Regardless I would suggest that none of these should unduly consume the worries of today's long-term investor. Rather, *I strongly believe the biggest risk might simply be short-term thinking*.

A recent study by Fidelity Investments, one of the largest mutual fund companies in the world, determined to find out who, among their millions of predominantly 'do-it-yourself' investor clients, had achieved the best performance. Much to their surprise, the winners turned out to be those who forgot they even had an account at Fidelity. By crook or by design, they were in fact (in this case, out of shear neglect!), long-term investors. They ignored – or weren't even cognizant of – the constant hoopla that the media jams down our throat every day, that may have otherwise compelled them to 'do something' in their accounts.

There is a name for this investor affliction; it's called "*short-termism*", and it is defined as follows,

Short-termism:
Concentration on short-term projects or objectives for immediate profit at the expense of long-term security.

How does the concept of concentrating on short-term projects at the expense of long-term security make you feel? If you're thinking something along the lines of 'not very good', I wholeheartedly agree.

However, throughout my career as a financial advisor and now a portfolio manager, I've often felt like the coach of a long-distance track team full of athletes who think they are training for a sprint. Rather than focusing on the actual finish line which is well off in the distance, they seem fixated on the first 100 meters. Achieving your investment goals is most definitely more of a marathon than a sprint. Doesn't that seem to be the case with most worthy objectives, such as success in business or in your career, achieving 'expert' status in any given field, learning a second language, or even simply how to hit a golf ball?

I can't think of anything noteworthy that I've ever accomplished that happened overnight, and that didn't come without a great deal of effort – *normally over a great deal of time*. Even today's "world's fastest man" Usain Bolt, who has run the 100 meter dash in less than 9.6 seconds, has been honing his skills for close to two decades. According to "The Lightning Bolt" himself, when asked about his childhood he recalled that "When I was young, I didn't really think about anything other than sports". By the age of twelve he was already winning 100 meter races. Now at 30 years of age, apparently becoming the world's fastest man has also been very much a long-term endeavor, not a short one by any measure.

A symptom of *short-termism* is concluding upon review of a *monthly* portfolio statement, that you just *lost* X amount of dollars after a negative month in the markets. Let us recall that during the 2008 financial crisis (translation: *the buying opportunity of a lifetime!*), Warren Buffett's personal share of Berkshire Hathaway dropped in value by approximately $10,000,000,000 (that's correct; ten **BILLION** dollars). Quite a hit for anyone - even someone as wealthy as Warren Buffett, I would think! But let me ask, how much money did Buffett actually lose? Of course, the answer is, he didn't lose **anything**. Why? Simple, he didn't sell. He didn't confuse short-term gyrations, which are completely unpredictable and entirely beyond even his control, with his longer term investment objectives. I don't believe Buffett would have been even remotely interested, nor influenced by, such a relatively short-term (albeit huge!) fluctuation in the long-term value of a portfolio of underlying, great businesses.

Does anyone believe for a minute that Buffett actually felt like he had just *lost* ten billion dollars?! To the contrary, of course, he went shopping (…but that may be a story for another day). As one final note on this: shares of Berkshire Hathaway (BRK.A) bottomed in March 2009 at just over $70,000 per share. Today they trade at approximately $215,000 per share – an increase of close to 260% in less than eight years. Like the Fidelity investors who didn't even know they had an account, he won by not reacting in knee-jerk fashion to near-term negativity. Clearly remaining focused on the future, and not the noise of the day, has served him well – yet again.

Further analogies of applying a short-term approach to a long-term endeavor would be measuring the distance from Calgary to Banff with a twelve-inch ruler, or checking to see what your house is worth every month. These are no more logical than *measuring your long-term investment success via a* **monthly** *statement* (or for that matter, over a quarter or even any one full calendar year). Clearly no-one in their right mind would behave this way, and we won't succumb to treating our investments (which by **default** – are "long-term") this way either.

We understand that a bored investor is a dangerous thing. We avoid the pitfalls of the herd. We will not confuse saving with investing. And finally, we will maintain an uncanny ability to "keep our heads" while all around us are losing theirs.

Along the likes of legendary investors such as Warren Buffett, we think long-term.

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