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The Long View

During this most recent market panic, a few investors asked me questions along the lines of, "What should an investor *do* at a time like this?" This is an interesting and important question.

During trying times, like the last quarter, the media -- and many of our friends -- provide very emotional arguments for taking action. "Something must be done!" they say. What action do they have in mind? Perhaps it is hedging, perhaps it is buying gold, or perhaps it is liquidating the entire portfolio and burying the proceeds in the backyard. Their focus is on doing something, and not necessarily on the right thing to do.

This common, and emotionally attractive, view stands at complete odds with the view of people who create massive amounts of wealth. Take a look at any of the lists of richest people. Perhaps they are the world's richest people, America's richest people, your state's richest people, or even your city's richest people. Whoever they are, these people made their money by owning very high-quality assets for a very, very long time. They do not dart in and out of investments based upon how they feel. They do not make their money by hedging. Instead, they let their businesses grow for very long periods of time, and they ignore what others will pay for their business from one microsecond to the next.

Consider how the average investor treats a house versus a stock. In real estate, the average investor is happy to sit on his investment for decades. By contrast, in the stock market, the ease of buying and selling combines with a constant stream of manic-depressive prices from "Mr. Market" to create a recipe for stupidity. The temptation to make bad decisions is enormous. As a result, most people would be better off if they treated their stock portfolio like they treated their home. Investors should ignore short-term fluctuations and focus instead on growth over very long periods of time.

Does it make sense to sell anything when the market is down 1,000 points? Obviously not. Quite the opposite. If any action is taken, it should be to buy. As Baron Rothschild said: "The time to buy is when there is blood in the streets." This logic is obvious, but it is rarely followed. Paying too much attention to the market triggers negative emotions, and ultimately, illogical actions. During scary or upsetting times, investors are better off if they unplug and avoid the market for a while. This emotional distance will provide the calm and rationality that investors need to weather Mr. Market's temporary depressive period.

To illustrate this principle, let us look at the world's three richest men: Jeff Bezos, Bill Gates, and Warren Buffett.

The vast bulk of Jeff Bezos's wealth stems from his ownership in Amazon. Since 1997, Jeff Bezos's wealth has grown by about 956x. Bezos recognized Amazon as a high-quality asset, and he held it through thick and thin, including through a 93% drawdown which took 10 years to recover from.

Similarly, the vast bulk of Bill Gates's wealth stems from his ownership in Microsoft. Since 1986, Bill Gates's wealth has grown by about 1,100x. To achieve this return, Gates held onto Microsoft while suffering through a 72% drawdown that lasted 17 years.

Warren Buffett's wealth comes from his ownership of Berkshire-Hathaway. Since 1990, Buffett's wealth has grown by "only" 42x. As with Bezos and Gates, Buffett's road to such wealth was not smooth. Achieving this growth required weathering two drawdowns of 45% or more.

All three of these men chose to own high-quality assets for decades. They remained patient through thick and thin, and they stayed the course through significant drawdowns, some of which took more than a decade to recover from. Clearly, they took the long view, and ultimately, they were rewarded for it.

I would like to close with some key points by John Maynard Keynes, the most influential British economist of the 20th century, and a value-investor himself. Keynes managed a 9.12% annualized long-term return from 1927 to 1945. This period included the Great Depression and World War II, and the overall British market was down. In chapter 12 of "The General Theory of Employment, Interest, and Money," which Buffett ranks as one of the three chapters that every investor should read, Keynes contrasts short-term panic with long-term profits.

> *Day-to-day fluctuations in the profits of existing investments, which are obviously of an ephemeral and non-significant character, tend to have an altogether excessive, and even an absurd, influence on the market ... [They are] the outcome of the mass psychology of a large number of ignorant individuals [and are] liable to change violently as the result of a sudden fluctuation of opinion due to factors which do not really make much difference to the prospective yield; since there will be no strong roots of conviction to hold it steady ... The market will be subject to waves of optimistic and pessimistic sentiment, which are unreasoning …*
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> *The Stock Exchange revalues many investments every day and the revaluations give a frequent opportunity to the individual ... to revise his commitments. It is as though a farmer, having tapped his barometer after breakfast, could decide to remove his capital from the farming business between 10 and 11 in the morning and to reconsider whether he should return to it later in the week.*

The spectacle of modern investment markets has sometimes moved me towards the conclusion that to make the purchase of an investment permanent and indissoluble, like marriage, except by reason of death or other grave cause, might be a useful remedy for our contemporary evils. For this would force the investor to direct his mind to the long-term prospects and to those only.

-- John Maynard Keynes

We -- like Keynes, Buffett, Bezos, and Gates -- buy our investments “for keeps.” Emotion is one of the investor’s greatest enemies, and we recognize that. We force ourselves to take the long view, however unconventional and rare that might be in an industry that focuses almost exclusively on activity and on the short-term. Superior investors may not <u>feel</u> insulated from panic and from the urge to do something, but they manage to <u>act</u> as if they are.

Do you take the long view?

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