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Thoughts for Investors

Spring Newsletter

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In 1950, 73% of U.S. employees worked in production or manufacturing. Now less than 15% do.

“The most pathetic person in the world is someone who has sight but no vision.”

– Helen Keller

WELCOME SPRING! In fact, the daffodils are long gone and we’re already on to the pollen and hay fever. Spring is a time for birth, a time for planting – both in the garden and in the portfolio, so let’s roll up our sleeves, get down on our knees and get our hands dirty.

At this point, many investors will remind me that they are too old to do any planting. No one is too old to think about growth. Col. Sanders started Kentucky Fried Chicken at the age of 65. As the average life expectancy rises thanks to continued advances in health care and technology, no one is ever too old for growth, even if it is meant for their grandchildren. Like seeds planted in the garden, growth provides the sustenance for this season and for many seasons (and generations) to come.

A very old man was once asked why he bothered planting trees since he would obviously never live long enough to see them mature. “Because long ago someone I didn’t know planted the ones I’m enjoying now” he said.

Let’s say you’re going to a party, so you pull out some pocket change and buy a little greeting card that plays “Happy Birthday” when it’s opened. After the party, someone casually tosses the card into the trash, throwing away more computer power than existed in the entire world before 1950.

I’m certain that most of us are enjoying the fruits of our parent or grandparent’s investments even if it’s not stocks or bonds. If we are not, certainly the stock market’s growth in the past decade should give us ample indication of what a growth investment can do. It’s never too late because something grows every spring. The secret to a bountiful garden is to plant enough seeds, let nature take its course, and tend it from time to time.

As any good farmer or gardener will tell you, there are things you can do to increase your yield. In a portfolio this means pull the weeds and water the flowers. The weeds are those stocks that don’t provide any fruit or flowers yet continue to compete for garden space. The trick here is that it is sometimes difficult to tell a weed from a flower when the plants are only one inch high. Sometimes you end up keeping what turns out to be a weed for quite some time before you recognize it as a weed. Once you’ve determined that it is a weed don’t hesitate to pull it up (sell the stock). Diversity is important.

All gardens benefit greatly from diversity. First and foremost, it is critical to the overall health of the garden. If one were to have a garden of all one type of plant, an insect or disease infestation could wipe out the entire garden. Likewise, an investor who has only owned gold stocks for the last decade has seen a negative annual rate of return. The second benefit of diversification in a garden is that something will be in bloom all season long. Your garden would be very bare from now until next spring if the only thing you planted was daffodils. If, however, you also have roses for the summer and squash and mums for the fall, your garden will be both enjoyable and productive.

In 1991, for the first time ever, companies spent more money on computing and communications gear than the combined monies spent on industrial, mining, farm and construction equipment.

Some investors gravitate to what is blooming now (large companies) ready to yank out the mums (young companies, international funds) before their season. Novice gardeners are guilty this time of year of running to the nursery and buying plants that are already in full bloom in the plastic pots. Not only is this more expensive than planting the seedling but usually the blooms on the plants in the plastic pots are in their final hurrah. Novice investors tend to act the same way,

chasing an investment after or near the end of its run up.

Anyone who has been to Longwood Gardens has experienced the beauty of a well-cared for garden. While Longwood definitely benefits from a lot of help, every garden (or portfolio) large or small, can be both very beautiful and bountiful. If your garden is not, hire a gardener.

“There is no security on this earth. There is only opportunity.

– Douglas MacArthur

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Hear the Other Side

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If you would like to discuss the topic of this newsletter, or our team’s approach to investing, please feel free to contact us by email at al.boris@alexbrown.com.

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