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Thoughts for Investors

Spring Newsletter to Clients

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While Spring is finally here. It's a wonderful time of rebirth, beauty and promise -- and a very special time for gardeners.

I am an avid gardener despite growing up with a backyard that was entirely concrete. The only time I stepped on grass was when I hopped the fence to retrieve a ball from the neighbor's, or when my seven brothers and sisters and I would tend the individual tomato plants he let us grow there.

Spring is full of lessons about cycles and efficiency. Winter is over and a new cycle has begun. Some plants have survived and some have not. In this letter I will attempt to explain how cycles and efficiency affect not just gardeners but investors as well.

The rebound in the economy and the stock market is viewed with the same amazement as that which accompanies bursting buds. No matter how many winters one experiences, and no matter how many subsequent springs, you're still not certain that most plants have made it. Likewise, with the stock market. You've seen it recover in the past, yet 9/11, or Enron, or job losses through outsourcing, all seem like unique, extraordinary, crippling events. " This time really is different", you say. Yes, there were market casualties that haven't rebounded, as happened to some of my azaleas. A few were crushed by heavy wet snow sliding off the roof.

Yet despite all these events, spring has returned. In reality almost all of my plants survived (though some pruning of broken and dead branches was required.)

The stock market too has rebounded from its lows and yes some pruning was required there as well. When contemplating the future of the stock market it's also worth remembering that spring is not immediately followed by winter again. There is a growing season first -- with efficiency lessons for both investors and gardeners.

Some gardeners are busy this time of year filling the backs of SUV's with plants and shrubs in full bloom. Others are directing cranes depositing 25-foot trees in strategic locations in their yards. While perfectly effective, gardening in this manner requires a large investment and is no guarantee of success for subsequent years. More cost conscious gardeners take a different approach generally described as "opportunistic" gardening. Some will be buying small trees and shrubs, recognizing that with time and patience a small investment can grow just as large. Other gardeners will buy trees and shrubs that look half dead in the back of the nursery. They may have barely survived the winter or may have been damaged in transport. Nevertheless, experienced gardeners know whether brown leaves or broken stems are superficial or fatal. These plants are usually "value" priced with minimal impact to the gardener's wallet if he's wrong. The best gardeners will incorporate both strategies, even "paying up" for something that is a rare or unique opportunity or superbly fills a need in the garden. I believe paying for a 25-foot tree is worth it if it immediately blocks an unsightly view. There are parallels with stock investing. Buying a stock of a young company and letting time and patience work for you will allow a small investment to grow large. Or paying a

cheap price for a stock that is damaged (but not fatally) is also a successful method of investing. Or finally, paying a fair price for a stock with a good dividend (and the prospect of that dividend increasing) is ok as well.

There is one other important gardening tip. Shrewd gardeners will often wait until after a plant is done blooming to buy it. This is often a way to pay the same price for a large, perfectly healthy plant as for a damaged one. It's a great way to stretch your gardening budget. Investors can use this technique as well. Most investors are excited about a stock or stock mutual fund are getting. Currently, much money is going into a stock or stock mutual fund when it is in "full bloom" and they can "see" what they are getting. Currently, much money is going into "income" or "safe" stocks and bonds

and investors are paying "full price". Buying a stock that is "out-of-season" delays your gratification yet is much less costly in the long run.

In summary, both investors and gardeners must remember that many things are beyond their control. Accounting issues, wars and new products from a competitor, are as much a part of investing as droughts, frost, and deer damage are a part of gardening. Yet in the long run, spring comes back, completing the cycle for both gardens and portfolios. Enjoy this great time.

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Hear the Other Side

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