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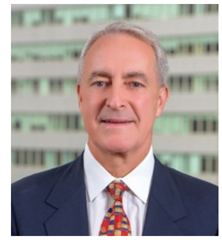

Thoughts for Investors

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THE MARATHON

In my opinion, it has always sounded trite to refer to investing as a marathon, and not a sprint. Yet this year, so far, the analogy is appropriate. Investors got off to a good start in January, wheezed quite a bit in the late spring/early summer, regained their "legs" in the fall, and are now headed to the finish line. Contrast that with the investment sprinter, the hedge fund. It is always difficult and tiring to run a long distance in a series of 100-yard dashes and hedge fund performance this year, for the most part, supports that belief. Many hedge funds are not having a good enough year to justify their fees. Of course, their mediocre performance could have something to do with the weight of those gold running shoes they bought for themselves (with investors' money). In this newsletter I will examine why I believe that investors should be marathoners, and not sprinters.

Retired and nearly retired investors realize the shortcomings of being an investment sprinter. Since they no longer work, they know they cannot replace capital lost to poor investing. Therefore, they worry about investments that start out fast but quickly "flameout". Younger investors, especially if they win a few early races, sometimes believe they have the stamina to continually sprint. However, with each succeeding race they get older, slower and nearer their peak of accumulated capital. So they learn what older investors before them have learned, that mistakes at this stage of the race are costly.

"It takes a long time to make money and a short time to lose it"

– Wall Street proverb

Today, it is popular to hire sprinters such as hedge funds, to run the race for you. But lately, with their tiring performance and apparent lack of stamina, it has become critical to replace these sprinters often. Because most investors are not qualified to pick sprinters, they will occasionally hire a "consultant" to do it for them. Unfortunately, consultants are usually just reactive, identifying the best sprinter after the race, and hiring them when the sprinter is too tired to run again right away.

"Forget your opponents; always play against par"

– Sam Snead, golfer

Marathoners are not without their shortcomings either. During any given stretch, a marathoner may be passed by one or more competitors. Even Lance Armstrong occasionally fell behind. Rarely though, do the good ones' resort to "chasing" the temporary leaders. They know that most runners who set an unsustainable pace will tire before the finish line. Good runners are patient and focused. They understand their own strengths and weaknesses and pace themselves accordingly. Likewise with investors. "Chasing" the performance of some currently hot mutual fund, hedge fund or any stock market "benchmark" only serves to distract an investor from his game plan and tire him before he reaches his goal. Just as great marathoners have a good idea of what "time" will be needed to win the race, most investors should also focus, not on other runners, but on their goal (the finish line), as well as the "time" it will take to win, and the "terrain".

"He who knows others is clever; he who knows himself is enlightened"

– Lao-tzu, philosopher

Terrain, i.e. life, plays a role for both runners and investors. Even though the marathoner receives a map of the course, something we obviously do not get in life. Course conditions change. Sometimes the pavement is dry, sometimes it is wet. Occasionally, a runner will trip over someone who falls in front of her. Climbing a hill on a hot day may favor a different runner than if the weather is cool. Sprinters on the other hand, perform best on smooth, dry, flat surfaces and when everyone stays in their own lane. The stock market (and life) rarely sees these conditions for very long periods of time. Bull markets; the smooth, dry, flat, straight tracks, don't last forever. That is why stamina, including psychological stamina, is so important to both marathoners and investors.

The final important piece to the puzzle is the class of race itself. If you dream of a very large, important trophy you have to make a serious commitment of your time and effort, and you must eventually run in important races with a lot at stake. You will never get an Olympic gold medal if you only train and compete in local events or only on the weekends or just in good weather. The same goes for investing. If the prize is a large portfolio at retirement you must be disciplined enough to save and invest significant amounts throughout your lifetime; and your investments must have a lot at stake, such as investments in your company, the stock market, or real estate.

In summary, investors have more in common with marathon runners than with sprinters.

First and most importantly, marathon running and investing requires mental stamina in the form of patience as well as focus. It is a long race, sometimes decades, and you cannot see the finish line from the starting line as sprinters can. Second, worrying too much about what other investors around you are doing during the race is a distraction that can throw you off your game plan. Every year there are new "hot" investments being touted by the media or consultants. It is tempting to chase these interim leaders. This is a mistake. It is a long race. You must know your strengths and weaknesses and continue at your pace. Both investing and marathon running are solitary endeavors. Third, terrain and course conditions change. You must be flexible. What works one day may not work the next. Only on rare occasions are conditions optimal. Finally, marathon running, sprinting, and investing do have one thing in common. The race to build your portfolio is an important one and the trophy is large. It requires a great commitment of time, patience, persistence, discipline and a great commitment of capital. Yet most investors are loath to commit their future to their success or failure in one short, fast race. Maybe comparing investing to a marathon is not a trite analogy after all.

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