



Albert C. Boris, III
Managing Director, Investments

Thoughts for Investors

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“One generation plants the trees under which another takes its ease”

– Chinese Proverb

Avoiding the Weather

Trees are amazing creatures. Some live to be hundreds even a thousand years old. Inevitably, they are all buffeted by severe weather at some point. Yet most continue to remain standing and growing. Having been buffeted recently by some severe weather in the stock market, what can we investors learn about how to make sure our portfolios remain standing and growing, and even fruitful, like strong trees? In this issue of “Thoughts For Investors” I will explain that there are other secrets to portfolio survival besides believing one can “uproot” and “replant” their portfolio every time one sees (or thinks they see) severe weather coming.

“It takes ten years to grow good trees, but a hundred years to grow good people”

– Chinese Proverb

Unlike with past bear markets, this time many investors and non-investors saw the gathering storm. Overextended consumers, “flipping” houses, and “greed” in general were just a few of the dark clouds building ominously. An often asked question today is whether we could have avoided this storm or somehow protected our portfolios better since we saw the storm on the horizon. When a hurricane or other severe storm is approaching, a cypress tree growing in the swampy Florida Everglades cannot and does not “uproot” and “replant” itself in the dry Arizona desert. The same is true with investment portfolios. Transaction costs and

consultants fees, tax implications, the futility and failure of “chasing performance”, investor emotions, and when to move back in, are a few reasons that can make the cost of “uprooting” a portfolio unfeasible and unwise in the long run. Besides, what if you incurred all these “costs” and the bear market “hurricane” turned out to be weak, short-lived, or even passed by your portfolio with only a glancing blow? How do trees survive and thrive despite enduring severe weather head on? They certainly cannot avoid it. (Note: if you are a Warren Buffett fan, even he didn’t avoid the bear market). Whether one is trying to protect trees or portfolios, both should be as healthy as possible to increase their chance of survival. How does one ensure that? Let me explain.

“The trees may wish for quiet, but the wind will not subside”

– Chinese Proverb

Whether you are looking to harvest lumber, paper, fruit, or simply shade from your trees; or harvest college tuition or a retirement income from your portfolio, they both need similar support. First, both need good, fertile soil (also known as the “growing medium”) in which to establish a healthy system of roots. Roots act to anchor trees against the weather and roots draw up the water and nutrients from the soil into the tree to make it grow. You can’t place a tree seed on a sidewalk and expect good results. You need to place it in soil. You need to place the seeds of your portfolio in the soil of the stock market. Just like real soil with stones, rubbish, worms, fungus, and bugs- and also hopefully with good stuff like nutrients and moisture - the soil of the stock market is full of uncertainty and opportunity. Get used to not always knowing what is “going on” there. The root of all

portfolios is your investment philosophy. Without a personal investment philosophy, there is nothing to keep you “anchored” when the hurricane of a bear market blows.

You also need the seeds, of course, and plenty of them. The seeds of your portfolio are your savings. If you don’t save, you will not have any seeds and you will not be able to harvest anything. It is that simple. Furthermore, even novice gardeners know that not all the seeds will successfully germinate and grow. Consequently, you have to plant many seeds to have a better chance of a large harvest. Often, investors will plant one or two seeds (buy one or two stocks), and then get disappointed, frustrated, and even quit investing when those stocks fail to germinate, grow, and yield a bounty. Another mistake many novice investors make is to plant one or two seeds and wait to “see what happens” before they are comfortable planting any more seeds! Clearly this is not the method for producing a large harvest in one’s lifetime. By the way, leverage - trying to get two trees from one seed - doesn’t work either. Though many investors today will blame the bear market (or their advisors or Wall Street) for their anguish over a failed harvest, the truth is that some never “sowed” much yet expected to “reap” plenty.

“In the mountains there are thousand-year old trees, but in the towns there are hardly any hundred- year old people”

– Chinese Proverb

Eventually, the addition of sun, water, and nutrients, and a miracle called photosynthesis, transforms tiny seeds in the soil into large trees with sturdy roots. With respect to investment portfolios, raw materials and the talents of company employees are the “nutrients” that turn savings, planted in the stock market, into the harvest of stock profits, which can be used for college tuition or retirement income. For investors, patience is the miracle equivalent to photosynthesis.

Last but not least is the role that, in particular, severe weather and bear markets play in the growth (or destruction) of trees and portfolios. Severe weather and bear markets actually aid the survival of healthy

trees and portfolios. It is during these times that dead and diseased trees or branches, or bad investments or fraud, are “weeded out”. By careful tending and pruning, both may only bend and/or lose a few branches.

***“Trees not trimmed don’t make good timber;
children not educated don’t make useful people”***

– Chinese Proverb

In summary, an important part of successful investing is to understand that it is not often feasible or reasonable to assume that one can “avoid the weather”. Investors must start by saving much, and then plant those many seeds in the fertile soil of the stock market. Investors must plant as early as possible to get the longest growing season. They must tend to their portfolio, pruning out the dead or diseased branches or trees – or hire a gardener to do it for them. Finally, investors must be extremely patient and exercise control of their emotions. Growth, be it a tree or a portfolio, comes slowly and in all kinds of weather.

“Weather is not as important as good soil, and good soil is not as important as human harmony”

– Chinese Proverb

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Hear the Other Side

The Boris-Kaplan Group // 1735 Market Street, Suite 1400 // Philadelphia, PA 19103 // T 215.563.2300
www.alexbrown.com/boriskaplan

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