



Albert C. Boris, III  
Managing Director, Investments

# Thoughts for Investors

## Investment Horses

NOVEMBER 2012

***“Capital isn’t scarce, vision is.”***

– Sam Walton

My father always reminded me that, hobbies notwithstanding, I should always spend my time on the most profitable endeavor I was capable of and leave the rest to someone else. Another piece of advice was to “use my head instead of my back.” In other words, harness the power of the right people or equipment to do the job. Every day some investors mostly or exclusively, use their own back to “pull” their portfolio. In this newsletter I will explain that there may be a better way.

***“If history repeats itself, and the unexpected always happens, how incapable must Man be of learning from experience.”***

– George Bernard Shaw

Recently, the stock market celebrated the 25th anniversary of the “Crash of 1987” which, at the time, sent many stock investors running to the supposed “safety” of bonds. Truthfully, 25 years ago an investor planning for or living in retirement could build a nice portfolio of bonds that generated a substantial income with what appeared to be very little risk. I recall 12% long-term US Treasury bonds and money market mutual fund rates of 17%. A common question at the time was why an investor should care about the stock market with bond and money market yields that high. The “Crash of 1987” was followed by the “dot-com” crash in 2000 and most recently, the bursting of the “housing bubble” in 2007. In my opinion, all these events had the same effect, fear, which sent investors running from the stock market and running to the safety

of bonds. Cumulatively this has contributed to short-term interest rates near zero, yields on five-year US Treasury bonds less than 1%, and the ability to build a (high quality) bond portfolio for income nearly impossible. The responsibility for creating retirement income is now all on your back (unless you can sing for your supper). But don’t give up! There is another way to pull your wagon. Consider stocks.

***“The great personal fortunes in this country weren’t built on a portfolio of fifty companies. They were built by someone who identified one wonderful business.”***

– Warren Buffett

I am NOT suggesting that stocks are automatically appropriate for every investor. What I am saying is that if you can identify them, there have historically been powerful “horses” available for investors to hitch to their wagons; horses like Bill Gates and Microsoft, Steve Jobs and Apple, Sam Walton and Walmart, Jeff Bezos and Amazon, Irwin and Paul Jacobs and Qualcomm, and Howard Schulz and Starbucks to name a very few. At one point, the strength of your own back may have been enough to pull your wagon full of responsibilities. Is it still? Even if you are now in the high-earning phase of your career, it may still makes sense to use some “horsepower.” No sense wearing out your back; you still may need it depending on where your children (or grandchildren) go to college.

***“However beautiful the strategy, you should occasionally look at the results.”***

– Winston Churchill

Using your back I call “saving,” whereas using your head to leverage the power of other smart people I call “investing.” Which do you think will get you farther? To answer that question, I defer to my father’s wisdom and prefer to use my head. So why do so many investors insist on breaking their back saving instead of investing? Two common reasons are: “I have enough money saved so I don’t need to take any stock market risk to get more” or “I’m scared of the stock market.” The former is a valid reason. As I have written previously, if your needs are modest and your assets are substantial (yet everything is relative and your time horizon and future income needs must be considered ... among other factors) then you may choose not to invest in the stock market. The latter reason, however, warrants some discussion.

***“Don’t let yesterday use up too much of today.”***

– Will Rogers

Being “scared of the stock market” implies worry about the “macro” economy, the economy as a whole. While I don’t mean to trivialize anyone’s emotional concerns, even in the midst of economic turmoil there can be opportunities for profitable investing. Although easy to identify in hindsight and less so upfront, just look at the smartphone market (and related companies like Apple and Qualcomm). Their phenomenal success has come despite global economic and political concerns. These concerns have conspired to drive investors away from “the stock market” and into the arms of ever-shrinking yields in the bond market. Instead of chasing “investment rainbows,” consider “hitching your wagon”

to the stocks of what you believe will be profitable businesses. There will certainly be times when these “horses” struggle or even fail to pull uphill and other times when the terrain will be level and the pulling is easier. If you are tempted to utter “this time is different,” remember the words of the great value investor John Templeton who said, “This time is different are perhaps the four costliest words in investment history.” Again, I am not trying to convince anyone that their emotions are not worthy of consideration. Rather I am suggesting that fear or not, financial responsibilities need to be addressed either with your back or with your head.

***“Adopt the pace of nature. Her secret is patience.”***

– Ralph Waldo Emerson

Even using your head is not without challenges. Someone once said that the reason the S&P 500 index outperforms individual as well as professional investors is that the S&P 500 index “has no fear.” As an emotion, fear starts in your head and can even make index investors or the most stalwart stock investors panic. A positive counterforce to fear is what I believe is an investor’s greatest asset: patience. Both fear and patience can be used like the reins to speed up, slow down, and steer.

In summary, investors can choose to use their back or their head (or even both if they are lucky). If you are retired or simply want to prepare for financial responsibilities, consider hitching some investment horses (stocks) to your wagon and maybe they can do some of the hard work for you.

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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](http://www.alexbrown.com/boriskaplan)

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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](mailto:al.boris@alexbrown.com).

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