BETTERINVESTING™
Rocky Mountain Chapter

APRIL 2013 e-NEWSLETTER

18 THINGS YOU MUST KNOW (Part I)

1. The intrinsic value of the stock market as a whole increases by about 10.6% per year, .88% every month, or .2% per week. That's what you'll get over the long term… on average. Everything else is noise. Of course, in any given week, month, or year, the return will deviate wildly from the long term average. That's life. Get used to it. Using the risk protection techniques taught by Better Investing, one can reasonably target doing up to 5% better than the long term average.

> *"While the mechanisms (and machinations) of the markets have changed mightily since Benjamin Graham first came up with a practical method for analyzing stocks, or even when Peter Lynch racked up big wins picking equities for Fidelity's Magellan Fund, at least this one thing remains true: Companies that deliver constant profits for shareholders will see their share prices increase accordingly over the long term."* - **Doug Gerlach**

2. Several academic studies have shown that those who trade the most earn the lowest returns. Women tend to be better investors than men by a small margin because men tend to trade more often. Men tend to believe they know more than they actually do and act accordingly. Women are more cautious and thoughtful in their investing.

> *"All man's miseries derive from not being able to sit in a quiet room alone."* – **Blaise Pascal**

3. The single best three-year period to own stocks was during the Great Depression. Not far behind was the three year period starting in 2009, when the economy struggled seemingly in utter ruin. The biggest returns begin when most people think the biggest losses are inevitable.

> *"You make your money during bear markets; you just don't know it at the time."* – **Shelby Cullum Davis**

4. In a large community of investment analysts, some will be seemingly successful by chance alone while others will appear to be failures. Subsequently, by chance alone, those seeming failures may turn out to be the successful ones while the successful drop down into the ranks of the failures. All of this by chance alone. Real investing genius is extremely rare and in the past hundred years only two or three qualify for that

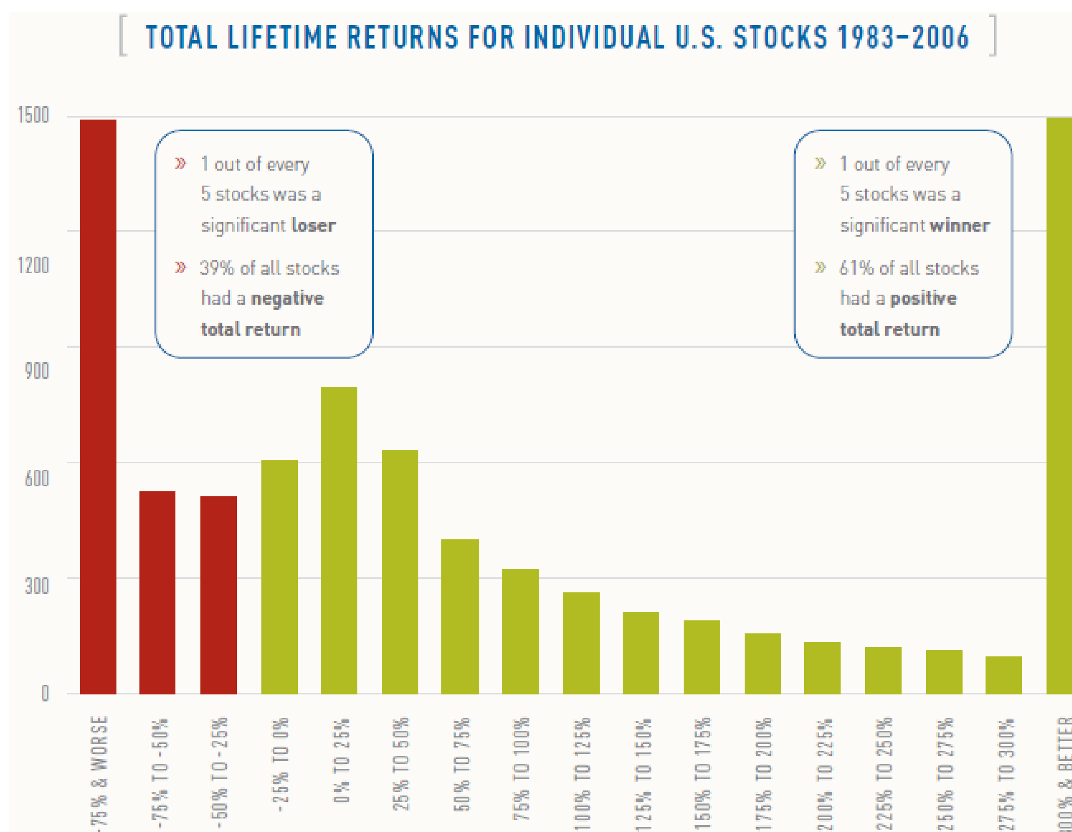
distinction. You must learn to use your own common sense and trust your own judgment based on your own research. The "experts" are not much help.

5. 90% of Warren Buffett's success can be explained by three factors: Patience, compound interest, and time.

6. How long you stay invested for will likely be the single most important factor determining how well you do at investing. It is not "timing the market", but your "time in the market" that counts.

> *"Even for those who don't believe in market timing, the stock market seems to have this incredible ability to turn you into a market timer. Every time I get the inkling to time the market I remind myself of Milton Berle's saying: "I used to be* ***bullish****, then I was* **bearish***. Now I'm* **brokish***!" The solution is simple: analyze and value individual stocks; and the cash in your portfolio should not be a byproduct of your view on the market, but a residual of your individual buy and sell decisions."* - **Vitaliy Katsenelson**

7. According to Longboard Asset Management, from 1983 to 2007, 40% of stocks were unprofitable, 19% lost at least three-quarters of their value, 64% underperformed the market, and 25% were responsible for all the market's gains. Statistically, successful



stock-picking is more about avoiding awful investments than finding good ones. Stay diversified. The upside potential of a good company is unlimited while the downside is

strictly limited by the projected low price on your SSG. Let that upside bias work in your favor over time and don't fret unduly over losses, just make sure you keep those losses to a minimum. Has your stock fallen to or even below your projected low price? Investigate the reasons, but <u>be prepared to sell and move on</u>.

> *"Never fall in love with a stock because it won't love you back."* – **Allen Holdsworth, Better Investing**

8. There were 272 automobile companies in 1909. Through consolidation and failure, three emerged on top, two of which went bankrupt. Spotting a promising trend and a winning investment are two very different things. It's the same story for airlines, internet companies, and the housing industry.

> *"The speculative public is incorrigible. It will buy anything, at any price, if there seems to be some "action" in progress. It will fall for any company identified with "franchising", computers, electronics, science, technology, or what have you when the particular fashion is raging. Our readers, sensible investors all, are of course above such foolishness."* – **Benjamin Graham, *The Intelligent Investor*, 1973**

9. In hindsight, everyone saw the financial crisis coming. In reality, it was a fringe view before mid-2007. The next crisis will be the same (they all work like that). Remember that the economy is NOT a machine but an enterprise of human beings burdened with all their psychological foibles. Psychology, not physics, is a good model for economists.

> "I *can calculate* the movement of the stars, but not the *madness of men.*" - ***Sir Isaac Newton***