Lessons From a Legend

“The four most expensive words in the English language are, “This time it’s different.” – Sir John Templeton (1912-2008)

Sir John Templeton, the legendary investor turned philanthropist, died last month in the Bahamas at the age of 95. Counted among the all-time investing heavyweights, Sir John was a contrarian investor, casually defined as one who buys while the market sells.

As you may have read, Templeton began investing at the onset of WWII by borrowing $10,000 and purchasing roughly 100 different stocks, over a third which were in bankruptcy at the time. While the rest of the world population was fearful, having barely recovered from the Great World War, John went against the grain. His personal philosophy, one he would retain throughout his investing life, was to buy stocks at a “point of maximum pessimism”, when the vast preponderance of investors had already cut and run.

The approach of such financial gurus as Warren Buffet and Sir John Templeton is to invest your money for the long-term in the unstoppable force that is the US economy. The stock market is not a bingo parlor, a racetrack nor a casino; it is where the companies of the US (which are becoming increasingly global) come to raise capital for new facilities, projects and products, by allowing you and me to become investors of said companies.

How is it then that the Templetons and Buffets of the world seem to be so rare? Why is it that the historic average mutual fund investor makes only 3% on their investments while historically mutual funds have earned somewhere in the neighborhood of 10%? If you examine them closely, you will find that nearly every successful financial guru had the benefit of professional management (either their own or someone else’s) coupled with patient, long-term view on the market.

When the markets swing one or another the natural human reaction is to either cash in on the trend or run from it. In financial parlance, they say the market is alternatively driven by “Fear” or “Greed”. In order to track the performance of people who attempt to time the market, Dalbar, a financial services research firm established a measurement known as the

"Guess Right" ratio. The Guess Right Ratio checks mutual fund net inflows and outflows versus market performance to see how they stack up. If you invested in the market and it went up you scored a point; likewise, if you pulled money from the market and the market went down, you scored a point. In both cases, your decision to act affected your portfolio positively, by making yourself money or preventing yourself from losing money.

So how did the market timers fare? The answer is: depends. In periods of rising markets investors guessed correctly. As the market was going up, they felt good about the US equity markets and rode the wave of momentum. In down markets (1988-89, 2002) they guessed incorrectly; 3 out of 4 of investors, reacting to the markets, guessed wrong in 1988 and 2002! Once they began to lose principal, fear took hold as they fell into the mistaken believe that "this time is different" and lost confidence (and money) in almost equal amounts.

Those Who Do not Learn Their History

The most recent "crisis" to hit the US economy has been the popping of the Real Estate Bubble, followed up by the credit/liquidity crunch. People began to default on their homes and the proverbial "house of cards" came tumbling down with disastrous financial consequences. Example: Bear Stearns stock price, which went from $50/share to $2/ share in the span of two weeks.

Here's the best part: none of that should matter to you because this time is **not** different. If you put a list of disasters from your lifetime in a row it sounds like a Billy Joel song (Asian Flu, Enron, 9/11, Dot-com,

Housing Bubble, Gulf War, the S&L's went bust, Black Monday, Stagflation, Oil crisis, Vietnam, North Korea, WWII). In the moment each seemed like a crisis of insurmountable proportions and we were told "this time is different" the end of the world was nigh. Every time the broad equity market rebounded with vigor and rose higher than it had been before the crisis, proving that notion false.

We may have lost Sir John, but that doesn't mean we have to lose one of the lessons he taught us: your personal behavior in the financial markets is a key component to your success. If you have a well-diversified portfolio that matches your risk tolerance and objectives, which is continually being monitored and rebalanced along the way, then why would you tinker with it? Why not embrace the one investment strategy, patience and courage that time and time again, have proven its worth.

Market cycles like the rising and setting of the sun will happen no matter what we the government or anyone tries to do to prevent them. However, in the dozen or so bear markets since WWII, when the market recovered, it was the investor who was rewarded, not the panicked seller. It's trying times like now where more people are guessing wrong than right that you need to stick to your plan, listen to your advisor, tune out the "noise" generated by the media and ask yourself: Are you more like the herd or more like Sir John?

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