A further 21 great investment quotes

29 MARCH 2017
EDITION 9

Introduction

The basics of successful investing are timeless and some investors (often the best) have a knack of encapsulating these into a sentence or two that brings them to life in a way that's easy to understand. Over the last few years I have written two insights on investment quotes I find useful (see "21 great investment quotes", Oliver's Insights, April 2014 and "Another 21 great investment quotes", Oliver's Insights, February 2015). Here are some more. Just considering them helps bring us back to the basics of investing which is critical at a time when we are being increasingly bombarded by noise around the next best thing or the next disaster about to hit investment markets.

Having a goal

"If you don't know where you're going any road will take you there." Lewis Carroll paraphrased, George Harrison song "Any road"

The first thing to do when embarking on investing is to work out what your financial goals are, how much risk you are prepared to take, your desire for income versus capital growth, how active you want to be in managing your investments, etc. This may entail seeking advice. But if you don't work out these things you will be vulnerable to all sorts of distractions which will take you a long way from your goals.

"Saving is a great habit, but without investing and tracking it just sleeps." Manoj Arora

There is a big difference between saving and investing with the former often implying putting money aside in a bank deposit. This may be fine for short term spending requirements and rainy days but it won't grow your wealth for which the more deliberate and considered process of investing is required.

The market

"Investing is the intersection of economics and psychology." Seth Klarman

The point is that asset prices rarely reflect some rational fundamental value. Instead, the influence of various behavioural biases on thousands and millions of investors will often act to push prices well away from fundamentally justified levels.

"Sometimes [Mr Market's] idea of value appears plausible and justified by business developments and prospects as you know them. Often, on the other hand, Mr Market lets his enthusiasm or his fears run away with him, and the value he proposes seems to you a little short of silly." Benjamin Graham

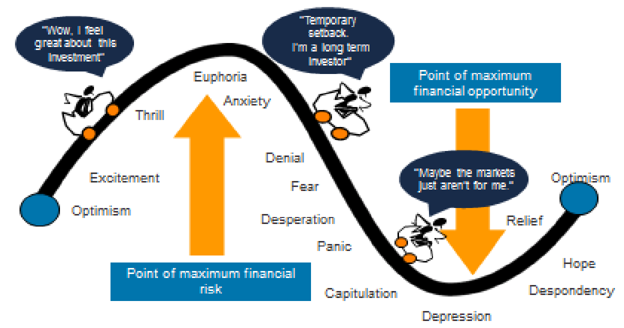
In other words, the market can be like a manic depressive. Several insights flow from the Mr Market metaphor for financial markets. First, avoid getting sucked in during good times and spat out during bad. Second, it's the manic swings that create opportunities. Third, make sure that you respect the market as the silly prices it throws up can sometimes linger longer than you can remain solvent (to borrow from John Maynard Keynes).

Contrarian investing

"Nearly every time I have strayed from the herd, I've made a lot of money. Wandering away from the action is the way to find the new action." Jim Rogers

In the roller coaster of investor emotion that characterises investor psychology through a share market cycle the best financial opportunities are found after a period of sharp falls when shares have become undervalued and under loved by the investing crowd, ie, when investors are depressed. And vice versa for when shares are overvalued and investors euphoric.

The roller coaster of investor emotion



Source: Russell Investments, AMP Capital

"Generally the greater the stigma or revulsion, the better the bargain." Seth Klarman

The more an asset has fallen out of favour to the point where no one will touch it with a barge poll is usually the point its value and return potential is probably the greatest.

"Cash combined with courage in a time of crisis is priceless." Warren Buffett

To take advantage of the buying opportunities thrown up by a sharp fall in markets requires not only spare cash but a lot of courage because this is invariably the time when the news flow is at its worst – with talk of economic crisis, falling profits, high unemployment, etc – but also when the crowd around you is convinced that it's a crazy time to invest.

Pessimism

"Pessimistic visions about anything usually strike the public as more erudite than optimistic ones." Joseph Schumpeter

The evolution of the human brain through the Pleistocene era when the key was to avoid being eaten by a sabre tooth tiger or squashed by a woolly mammoth has left us hard wired to be on the lookout for risks. So bad news sells and a financial loss is felt more distastefully than the beneficial impact of the same sized gain. Consequently, prognosticators of doom are more likely to be revered as deep thinkers than optimists. Therefore, we seem to be perpetually bombarded with warnings about the next disaster to hit investment markets. But when it comes to investing, giving too much attention to pessimists doesn't pay. Historically, since 1900 shares have had positive returns seven years out of 10 in the US and eight years out of 10 in Australia.

Process

"Investing is simple. It's the financial industry that works hard to make it complex!" Robert Rolih

Unfortunately, there is an element of truth in this, although in the industry's' defence often the complexity arises from the desire to protect against a particular risk (eg, options) or make it easier to gain access to a certain exposure and remove others (eg, hedging currency risk from global exposures). But frequently this leads to unnecessary complexity and at times the industry itself has not properly understood what it has created (eg, the risks around sub-prime debt in the US prior to the GFC). Maybe it's just human nature to want to make the simple complex. But the bottom line is: don't overcomplicate your investments. Avoid investments you don't understand and keep your investment process relatively simple and commensurate with the amount of effort you want to put in.

"Trying to pick the stocks that outperform the average is like trying to find a needle in a haystack." Robert Rolih

Jack Bogle (the founder of Vanguard) says just buy the haystack. The point is that trying to pick stocks that will outperform the market is not easy and requires a lot of effort. The key to growing wealth over time is to get a broad exposure to the market and let compound interest do its job.

"If you are shopping for common stocks, choose them the way you would buy groceries, not the way you would buy perfume." Benjamin Graham

If you are trying to pick stocks to outperform the market the key is to look for value rather than glamour.

"The individual investor should act consistently as an investor and not as a speculator. This means,,,that she should be able to justify every purchase she makes and each price she pays by impersonal, objective reasoning that satisfies that she is getting more than her money's worth for her purchase." Benjamin Graham

In other words you need a process that filters stocks & enables you to assemble a portfolio as opposed to just taking a punt.

"Good investing is boring." George Soros

Successful investing can take discipline and time and sometimes it can take years to pay off. This can be boring. If you want bright lights, excitement and instant riches (or more likely, losses) the casino is the place to go.

"It is remarkable how much long term advantage people like us have gotten by trying to be consistently not stupid, instead of trying to be very intelligent." Charlie Munger

This is very important. You don't need a super high IQ to be a successful investor. In fact, Charles Ellis wisely related investing to a "losers game" like amateur tennis or boxing after several rounds where you win by not trying to be smart but by not making stupid mistakes. In other words you win by not losing.

Knowledge, wisdom and noise

"Information is not knowledge, knowledge is not wisdom." Frank Zappa (and maybe some others)

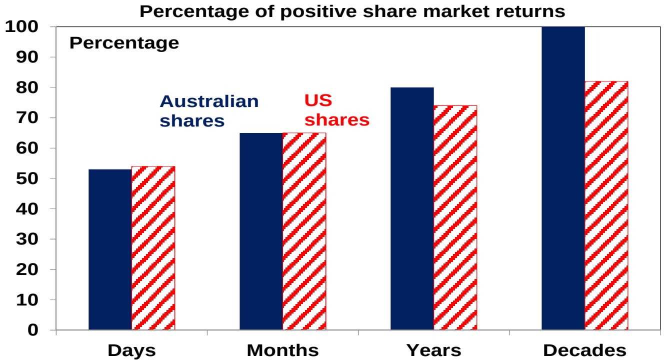
The information revolution and particularly the explosion of social media has made available to us a wealth of information and opinion around investments. But we need to recognise that much of this is ill-informed and that there is a big difference between information and wisdom when it comes to investing.

"An investment in knowledge pays the best interest." Benjamin Franklin

There is not much to add to this. You have to do research and analysis before making investment making decisions. And with knowledge will come the wisdom to be able to screen out what doesn't matter from the noise that surrounds us.

"When an investor focuses on short term investments, he or she is observing the variability of the portfolio, not the returns – in short being fooled by randomness." Nassim Nicholas Taleb

Focussing on short term fluctuations in investment markets can be very distracting and risks blowing you off course from your strategy. Much of it is just random noise. On a day to day basis its pretty much a coin toss as to whether you will get good news or bad from share markets but the longer the time horizon you take the greater the probability of a positive return. On a calendar year basis its around 70-80% and on a decade by decade basis its actually 100% for Australian shares. In other words, time is on your side and the more you have of it the better. So turn down the day to day noise and avoid looking at your investments too frequently to avoid being disappointed.



Daily and monthly data from 1995, data for years and decades from 1900. Source: Global Financial Data, AMP Capital

Right mindset

"It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so." Mark Twain

If you want to be a successful investor you have to check your ego at the door and be humble.

Another perspective

"Always borrow money from a pessimist – she doesn't expect to be paid back." Anon

Or just make sure you don't take on too much debt such that you lose control over your investments just at the wrong time.

"Money is not the most important thing in the world. Love is. Fortunately, I love money." Jackie Mason

The Beatles wisely realised that "money can't buy me love" and in the end the love you take is equal to the love you make.

"Money, if it does not bring you happiness, will at least help you be miserable in comfort." Helen Gurley Brown

Well I guess that's a good second best!

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