

Timeless Truths for *Investing*

Long-term reminders during
short-term volatility

When markets crash, investors worry. And when investors worry, they can make emotional decisions that jeopardize their long-term financial health. Unfortunately, fear causes us to forget some of the “timeless truths” that studies have shown to be advantageous to many investors in the long run.

There are many such truths to remember when it comes to investing, but five are particularly useful to remember during times of great uncertainty:

I. Keep Your Eye on the Owner, Not the Dog

Investor Ralph Wanger, according to Bill Bernstein, once explained the stock market this way:

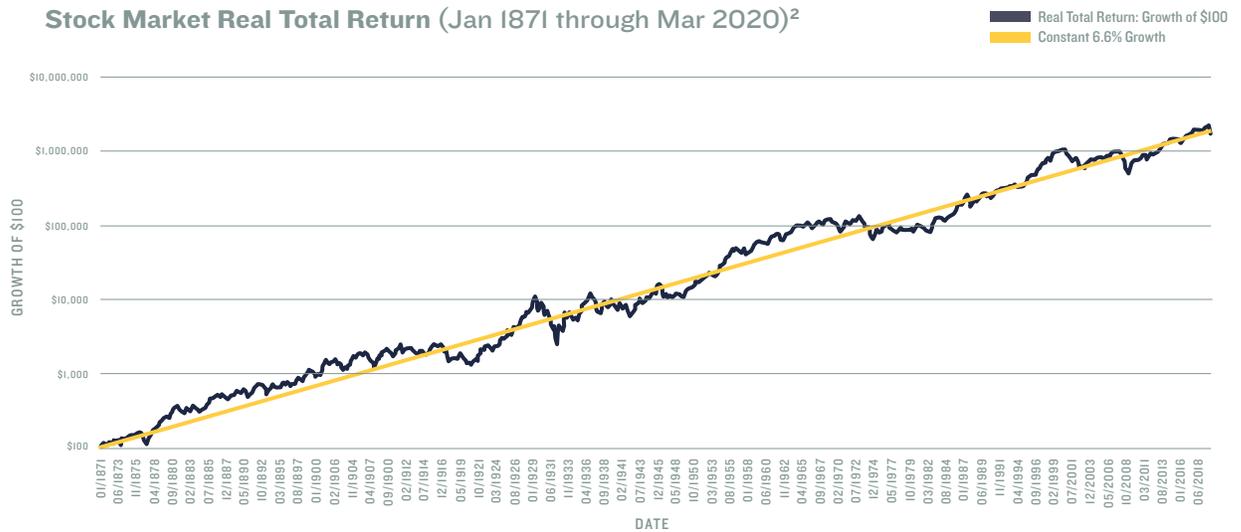
He likens the market to an excitable dog on a very long leash in New York City, darting randomly in every direction. The dog's owner is walking from Columbus Circle, through Central Park, to the Metropolitan Museum. At any one moment, there is no predicting which way the pooch will lurch. But in the long run, you know he's heading northeast at an average speed of three miles per hour. What is astonishing is that almost all the market players, big and small, seem to have their eye on the dog, and not the owner.¹

Short-term market movements can resemble an excitable dog on a long leash, chasing distractions in every direction. Attempting to predict the market's daily movements is exhausting, and, perhaps even more important, it is unnecessary for the long-term investor.

The graph shows the real total return of \$100 invested in the S&P 500 adjusted for inflation with dividends reinvested from January of 1871 through March of 2020. The graph also shows a hypothetical constant 6.6% growth real return adjusted for inflation. You can see that the daily, weekly, and even monthly fluctuations in the market are not always reliable indicators of its long-term returns.

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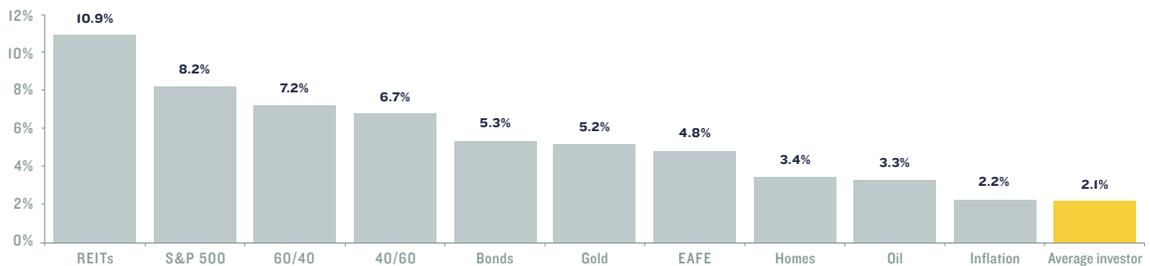


2. Restrain Yourself

On December 31, 2009, an article in the Wall Street Journal praised the decade’s best-performing U.S. diversified stock mutual fund—the CGM Focus Fund.³ The fund had a more than 18% average annual return over the previous decade. Most investors in the fund, however, did not get to reap the benefits of this fund’s returns due to their investment behavior. The typical investor bought in after the fund had a good run and sold out when the fund experienced a decline. Astonishingly, the average shareholder in the CGM Focus Fund lost 11% annually over the same time period.

It is important to restrain ourselves from making emotional decisions that deviate from our investment strategies. Lack of restraint may cause the average investor to buy and sell at the wrong times, resulting in returns that virtually underperform all asset classes over long stretches of time as shown by the bar chart below.

20-year annualized returns by asset class (1996 – 2015)⁴



3. Employ a System That Forces You to Buy Low

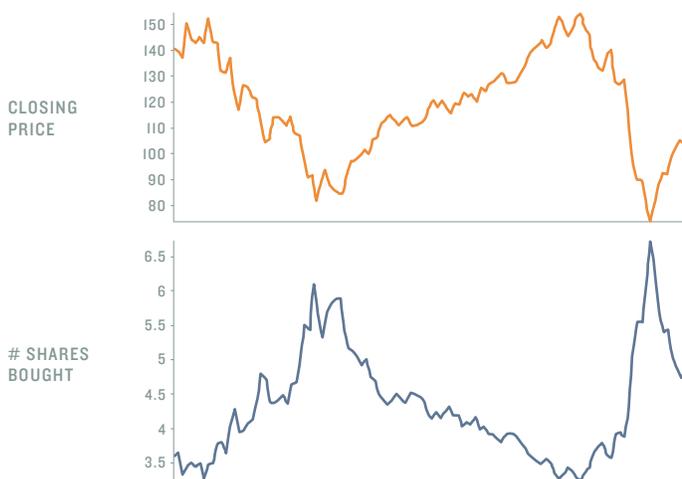
The most basic concept of making money in any market is to “buy low and sell high.” Of course, this would be a lot easier to implement if we could predict the future with impeccable accuracy, right? We would know exactly when the market is at its lowest point and invest at the perfect time.

The truth is that studies have shown that there is a better way to invest than buying in at that lowest point (even if you were able to predict when that lowest point was). Investing the same amount of money each month (a strategy called “dollar-cost averaging”) has shown to have better long-term returns compared to waiting to buy the dips at the absolute perfect times.⁵

The reason dollar-cost averaging works so well is that it forces you to continually gain exposure to the long-term upward momentum of the market while buying more shares when prices are low and less shares as prices increase.

The top graph below shows the return of the S&P 500 from the time period of January 1, 2000- December 31, 2009. This time is referred to as “the lost decade” as the S&P had a negative return over the period. The bottom graph displays the dollar cost averaging strategy buying more shares as the market dips and less shares as the market peaks. The returns of the investor implementing this strategy outperform the market during the lost decade.

S&P 500 Return (Jan 1, 2000 – Dec 31, 2009)^{6,7}



Dollar cost averaging purchases nearly twice as many shares when prices are low. What’s more the return for an investor implementing this strategy would have been +5.9% over the period

4. Remember the “Most Powerful Force in the Universe”

Though not known for his investing advice, Albert Einstein made one audacious claim regarding investing that is worth remembering:

The most powerful force in the universe is compound interest.

What is compound interest? Another prominent historical figure, Benjamin Franklin, described compound interest this way:

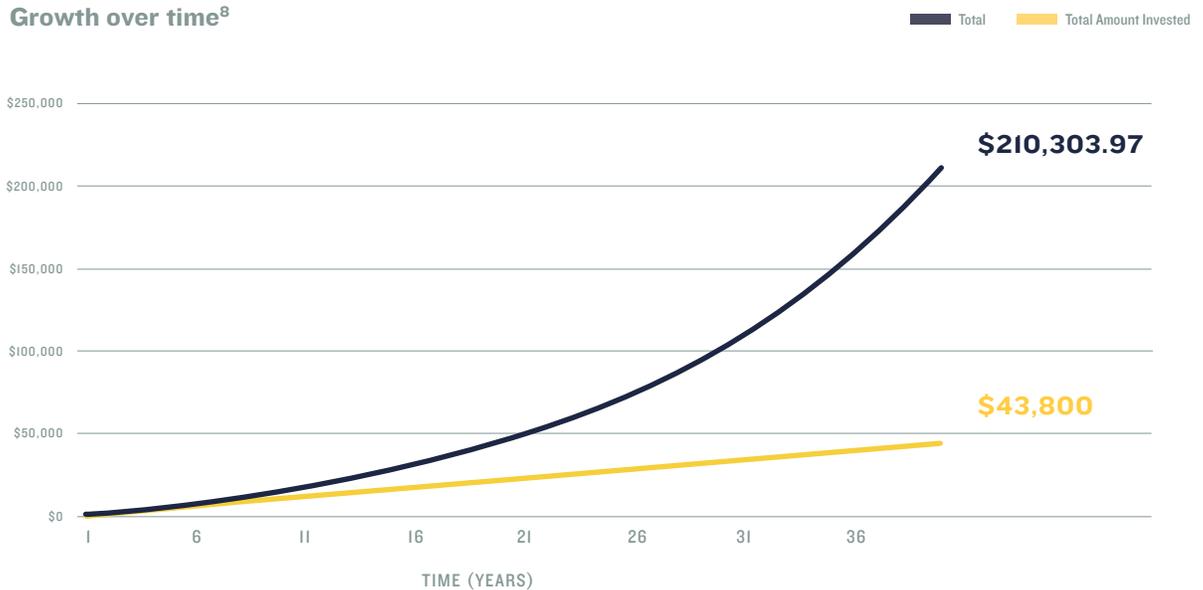
Money makes money. And money that makes money, makes money.

As an example, imagine you invested \$3 per day that you would have otherwise spent on coffee, totaling \$1095 for the year. At a growth rate of 6.6%, that \$1095 would be worth \$1167.27 after one year. The next year, you invest another \$1095 on top of the \$1167.27 you made the previous year, totaling \$2,162.27. This \$2,162.27 now grows again at 6.6% rate, leaving you with \$2,411.58 at the end of the second year.

Here is what your \$3/day investment looks like over 40 years, assuming an annual 6.6% growth rate, compared to the uninvested \$3/day.

The most powerful force in the universe is compound interest.

Growth over time⁸



We believe investing in businesses as opposed to stocks encourages a more thoughtful posture towards investing and naturally encourages the fruitful behavior that positions investors for long-term success.

5. Invest in Businesses, Not Stocks

At its most fundamental, investing is supplying capital to businesses. And when you supply a business with capital you become part owner of that business, sharing in their profits via dividends and growth via appreciation. It is important that we not lose sight of this simple, yet often-overlooked concept.

The meaning of the verb “invest” can quickly become distorted when our attention is diverted to stock ticker symbols, complex charts, or even outcomes we may desire.

Some of the most respected investors of our time have succeeded by focusing intently on the types of companies they want to own. Like these esteemed investors, it is important to ask the question,

“What types of companies do I want to own?”

Inherent in this question are further questions that warrant consideration:

Would I be proud to own this company?

Would I feel comfortable having a family member work at this company?

Do I believe in the product or service that this company offers?

Does the company create value for each of its stakeholders?

Is its business model and management team able to sustain a successful business?

We believe investing in businesses as opposed to stocks encourages a more thoughtful posture towards investing and naturally encourages the fruitful behavior that positions investors for long-term success. Confident investing, according to Eventide’s CIO Finny Kuruvilla, starts with believing in high-quality companies:

Many people have had the experience of purchasing a stock, becoming nervous as it declined, and then selling out at a loss—perhaps only to see it go right back up. On the other hand,

if a person knows the business the stock represents, trusts management, and so comes to believe in the company, these declines are not so troubling. That person is a confident investor because history has shown that great businesses not only endure downturns but emerge even stronger—making these declines attractive points to invest further.

Conclusion

Remembering the simple reality of what investing actually is (company ownership) helps provide the peace of mind that we ultimately desire. While short-term volatility entices a variety of emotions, these timeless truths help us weather the uncertainty by reminding us of the historical results that have come from intentional behavior.

¹ Bill Bernstein, *The Four Pillars of Investing: Lessons For Building a Winning Portfolio*, 2010, p. 59.

² Eventide Asset Management, Robert Shiller. January 1871 through March 2020 (March 12, 2020 close). Real Total Return is the S&P 500 Price Return adjusted for inflation with dividends reinvested. The S&P 500 is an index created by Standard & Poor's of American stocks with the largest market capitalization and is used to represent the stock market generally. It is not an investment available for purchase.

³ Source: Eleanor Laise, "Best Stock Fund of the Decade: CGM Focus," *The Wall Street Journal*, December 31, 2009. Accessed here on 03/27/2020: <https://www.wsj.com/articles/SB10001424052748704876804574628561609012716>

⁴ JP Morgan, Dalbar

⁵ Nick Maggiulli, "Even God Couldn't Beat Dollar-Cost Averaging," *Of Dollars and Data*, February 5, 2019. Accessed online here: https://ofdollarsanddata.com/even-god-couldnt-beat-dollar-cost-averaging/?mod=article_inline

⁶ "What Dollar Cost Averaging Did In The Lost Decade," *Novel Investor*. Accessed online here: <https://novelinvestor.com/dollar-cost-averaging-lost-decade/>

⁷ "How Ordinary Investors Trounced the Lost Decade," *Motley Fool*. Accessed online here: <https://www.fool.com/retirement/general/2010/01/20/how-ordinary-investors-trounced-the-lost-decade.aspx>

⁸ Eventide Asset Management. For illustration purposes only. Past performance is not assurance of future results.

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