

The Tonge Telegraph January 2004

New Year Resolutions

I start each New Year by reviewing these three resolutions written by David L. Babson some 30 years ago. Like New Year's resolutions for other purposes, these are a great foundation upon which we can construct our respective investment programs this year and for many years to come.

1. Resolved: To pay no attention to my own or anyone else's predictions as to what the stock market is going to do over the next few weeks or months.
2. Resolved: To adhere faithfully to my long-term investment plan, which I have drawn up on the basis of predictable rather than unpredictable trends.
3. Resolved: To think of myself as a part owner of the companies in which I invest and not as a buyer of pieces of paper that I hope later to sell to someone else at higher prices.

Most individuals, including many professionals, still have a tough time following the first resolution. We are in The Great Information Age. There are so many experts with fancy titles and degrees making predictions from prestigious firms. 'They must know what is going to happen!' Well, they don't know and neither does anybody else. If you look at previous predictions, you will discover that at any given time almost everything is predicted. Someone is always predicting rain, somebody is predicting sunshine, and somebody always turns out to be right. Nobody has a very good track record with stock market predictions because there are too many variables.

The second resolution comes in two parts. First, we all need an investment plan in place, which includes goals and objectives as well as plans for future deposits or withdrawals. The best plans are written and kept with other investment papers. The second part is about investing based upon predictable rather than unpredictable trends. No one can predict what stock prices or interest rates will be in the next week or year. No one can predict which way the political winds will blow or how government policies will change. No one can predict how fast or slow GNP will rise in the upcoming year or when the next big international crisis will occur. We can predict that the population will continue to grow, that more people will need more goods and services, that research will continue to develop new products and techniques, and that the Dollar's buying power will keep shrinking in the years ahead. We can also predict that well-managed companies with favorable long-term investment characteristics will continue to provide their shareholders with above average progress and earnings and dividends.

The third resolution is the most difficult to follow. The investing environment has changed a bit. It is now difficult to buy a company and hold it forever. Investing would be very simple if we could. In today's environment, the fortunes of companies can suddenly change radically, and investors must occasionally protect capital by seeking alternate investments. A recent example is Tyco. This was a good investment for many years. As it fell on hard times I sold my holdings and have now purchased them back at much lower prices as the company gets back on its feet. Today's environment requires us to be more nimble.

These resolutions are the solid base upon which I build your investment portfolios. I always find it useful to review them again as a new investing year begins. Best wishes for the coming year.