



How to be a successful long term investor

How many times does the end of the world as we know it needs to arrive before we realise that it's not the end of the world as we know it?"

— *Michael Lewis, editor of the book of essays 'Panic: The Story of Modern Financial Insanity.'*

Warren Buffett's personal wealth, which is nearly all in stocks, was recently stated as being down by ten billion dollars. A journalist asked him how it felt, to see his wealth go down over 40%. Buffett's reply was that it felt pretty much the same as it did the half-dozen or so other times it's happened to him over the last fifty years!

He would be the first to tell you, he hasn't lost anything. Why? - Because he hasn't sold. In fact, he could tell you about having 'lost' \$347 million on Black Monday, October 19, 1987 and a decade later, in just 45 days during the summer of 1998—when Russia defaulted, Long-Term Capital Management imploded and the emerging markets collapsed he 'lost' \$6.2 billion. Are you starting to see the pattern? Buffett was simply experiencing temporary price declines, which were dwarfed by the wealth he accumulated when the long-term uptrend resumed.

When you experience a world where stock markets have been down fifty percent or more, and where it is fair to say that the value of just about everything has gone down a lot, and some bank savers would have lost everything had it not been for unlimited Government compensation, then you are going to have concerns.

We can say that the experience of the world's most successful investor is not typical, but it is certainly symbolic. The markets indices, excluding dividends, and at today's depressed levels, are up about five times since October 19, 1987. And there have been at least three bear markets between then and now.

So, consider the possibility that you haven't lost anything until you sell out in a panic and guarantee the loss. If you don't panic and don't sell, then in the fullness of time your low cost and broadly diversified portfolio of quality funds will not merely erase the temporary 'loss', but will go on to build wealth for the patient investor. Consider this thought because the evidence and history can give us no other conclusion.

The average retirement age is about age 63, which means the average person retiring this year was born in 1946—the first year of the fabled baby boom. I understand that many of these investors are shouting about how much they have 'lost' over the last year or so, and this is only natural. But just before any investor gives in to this line of thinking (which is "I've 'lost' X thousands of pounds, and I'd better get into some of those 'safer' investments before I lose any more!"), they should think about the facts.

There have been about thirteen major declines in world stock markets between 1946 and today. That is, thirteen major declines in which frightened investors could have spent lengthy periods adding up their 'losses' every night, to the point of insanity.

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I guess we are now in the later stages of the largest of those thirteen declines. If throughout all these periods one had stayed broadly diversified with high quality investments, there was really only one way for the long-term investor genuinely to lose anything. It was to mistake a temporary decline for a permanent loss, and then to panic and sell out. But the market didn't do that to anyone. People did that to themselves. A huge part of successful long-term equity investing is the decision not to make such a mistake. However, this should not be confused with reviewing an investment portfolio which you think may be poorly structured.

One consequence of current events is that you may never again in your lifetime know so many people, so desperately in need of good advice and so thoroughly disenchanted with their current financial adviser. The published figures for investments being sold, probably randomly, show that there must be thousands who are not at all happy with the financial advice they have been getting, and they at least need the benefit of a second opinion.

We should not involve ourselves in too many conversations about how long it will take for the markets to come back, a variable which is unknowable and therefore unhelpful to someone's long-term financial planning.

However, the historical facts are that twelve-month returns during the recovery of the ten previous post war recessions have averaged over 30%. I struggle to understand why these undeniable historical facts are not ever mentioned in the press, but then the press is always preoccupied with doom and gloom.



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2008 Performance Review

Applying fund performance to portfolios

Every client portfolio is unique and therefore accurate performance figures are discussed at review meetings. Even when they have the same attitude to risk, one client's portfolio will differ from another due to a number of factors. Examples include one withdrawing an income when another is making additions, buying and selling for CGT planning, switching funds between pension and ISA.

Indices in bold. All figures rounded to one decimal place.

UK Stock Market Indices and funds	2008	2007	2006	2005	2004	2003
FTSE All share index	-29.9	2.7	16.8	22.0	12.8	20.9
L&G Index Trust	-29.6	4.5	16.4	21.2	11.9	20.0
M&G Index Tracker fund	-29.2	3.6	17.9	20.3	12.3	20.5
DFA UK Value fund	-42.7	-9.0	31.8	24.5	14.8	29.3
DFA UK Core Equity fund	-31.2	1.7	14.9	n/a	n/a	n/a
FTSE Small Cap ex IT's Index	-43.4	-6.3	22.9	18.9	13.1	40.9
DFA UK Small Co. fund	-30.6	-9.2	27.24	25.9	17.2	36.2
DFA European (&UK) Small Co. fund	-30.57	0.23	27.2	25.7	n/a	n/a
International Stock Market Indices & funds						
FTSE World ex UK Index	-39.1	6.9	17.23	16.9	12.4	26.6
DFA International Core Equity	-19.7	n/a	n/a	n/a	n/a	n/a
NU International Index tracking fund	-19.0	8.2	4.0	23.8	5.5	19.2
DFA International Value fund	-27.7	1.8	9.2	25.4	9.8	23.9
DFA Emerging Markets Value fund**	-36.9	39.9	16.4	n/a	n/a	n/a
DFA US Small Co. fund	-13.2	-5.3	1.8	29.2	11.1	41.9
DFA Pacific Basin Small Co. fund	-8.07	7.8	-10.2	39.3	n/a	n/a
Bond Indices and funds						
Retail Price Index (RPI)	2.4	4.1	4.4	2.2	3.5	2.8
FTSE British Gov All Stocks Index Linked Gilts	3.7	8.5	2.9	9.0	8.5	6.6
L & G All Stocks IL Gilt Index fund	3.4	7.7	2.1	8.5	n/a	n/a
FTSE British Gov All Stocks Gilts Index	12.8	5.27	0.7	7.93	6.6	2.1
L&G All Stocks Gilt Index fund	11.8	3.9	0.5	6.6	5.0	1.1
DFA Global Short-dated Bond fund	6.2	5.0	2.6	3.3	n/a	n/a

** Formerly DFA Emerging Markets fund