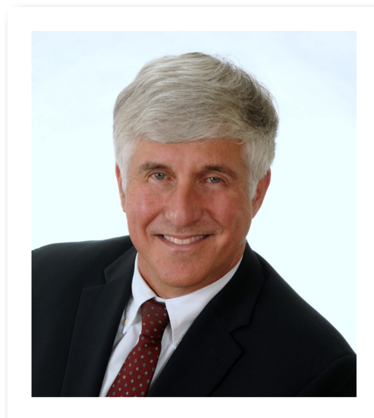
TRANSITIONS

A Proverb for Your Investment Strategy

In a recent conversation about differing cultures, I was struck by the wisdom of a simple proverb I had never heard before. Yet it is something I have been practicing throughout my entire career of rendering investment advice to individual investors.



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In portfolio management courses taught at business schools, following the old sayings seemed rather silly. There was the “Superbowl” stock market indicator, where a win by an NFL team meant the market would move higher. When an AFL team won, there would be a bear market. And then there was the “hemlines” indicator, where the length of women’s skirts currently in fashion, correlated with market direction. In good economic times, hemlines rose along with stock prices. Data points supported each of these sayings. Yet with the original NFL and AFL leagues being historical in nature, and when different length skirts are simultaneously seen irrespective of current fashion trends, following such indicators is perilous. My take away from that course was never to rely on analysts who focus on statistics for decision making.

Having been immersed in the fundamentals of equities markets for many decades, I rarely have time to reflect on old sayings, poems, or proverbs. Yet across cultures, proverbs encapsulate the core truths of human nature, providing guidance for decision making.

“HABA NA HABA HUJAZA KIBABA” is a Swahili proverb sung by people who likely have little interest in our stock markets. Yet their proverb is compelling to today’s investor. It translates into “slow and steady wins the race”. The beauty of this Swahili proverb is it addresses the

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concept of prudent investing. This is the practice of investing money for the longer term, where risk and reward are factored into returns.

In this Swahili proverb, “slow and steady” means we should focus on conservative investing to reduce the level of risk while providing ample rewards over time. Prudent investors do not chase the rewards of a higher return when it involves a higher risk of capital. One should avoid stocks with very high price/earnings ratios, or companies which are either heavily debt laden or will remain unprofitable for the foreseeable future. Also, one should avoid fiscally unstable, or low credit worthy bonds to earn what often is just a slightly higher return than what higher quality bonds offer.

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Watching the entertainment provided by the financial news shows leads to the opposite concept. Often their message is to simply invest in a handful of tech stocks to win at investing. This type of win is exhilarating for those who play the markets as a hobby, or who like the thrill of gambling. At times there are big wins, and then there are big losses. However, swinging at the markets is not really investing.

When evaluating a portfolio, or when contemplating how to invest in a manner that meets your long term objectives, I hope you will remember the wisdom of this simple proverb where “slow and steady wins the race’.

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