7 Rules For Long Term Investing Success

Long term investing requires some basic rules to avoid pitfalls along the way. If investing money worked as the mainstream media suggests, then why, after three of the most significant bull markets in history, are 80% of Americans so woefully unprepared for retirement?

> *"The crucial point to understand when investing money is the financial market will do one of two things to your financial future."*

1. *If you treat the financial markets as a tool to adjust your current savings for inflation over time, **the markets will KEEP you wealthy.***
2. *However, if you try and use the markets to **MAKE you wealthy, your capital will shift to those in the first category.***

Many believe that investing in the financial markets is their only option for retiring. Unfortunately, they have fallen into the same trap as most pension funds, hoping market performance will make up for a ?*savings?* shortfall.

Speculation is not a viable long term investing strategy

Chasing markets is the purest form of speculation. It is simply a bet on higher prices rather than determining if the priceyou are currently paying for those assets is selling at a discount to fair value.

Along with David Dodd, Benjamin Graham attempted a precise definition of investing and speculation in their seminal work *Security Analysis* (1934).

> ?*An investment operation is one which, upon thorough analysis, promises safety of principal and a satisfactory return. Operations not meeting these requirements are speculative.?*

There is also an essential passage in Graham?s *The Intelligent Investor:*

> ***?The distinction between investment and speculation in common stocks has always been a useful one and its disappearance is a cause for concern.*** *We often state that Wall Street, as an institution, should reinstate this distinction*. *And to emphasize it in all its dealings with the public.* ***Otherwise the stock exchanges may some day be blamed for heavy speculative losses***. ***Which those who suffered them had not been properly warned against.?***

Indeed, most individuals have forgotten the meaning of *"investment."* However, the following 10-guidelines from legendary investors can help us refocus our attention on what matters when investing long term.

1) Jeffrey Gundlach, DoubleLine

> *?The trick is to take risks and get paid for taking those risks. But to take a diversified basket of risks in a portfolio.?*

Such is a common theme that you will see throughout this post. Great investors focus on ?*risk management?* because ***?risk*? is not a function of how much money you will make**. **It is how much you will lose when you are wrong.** In investing, or gambling, you can only play as long as you have capital. If you lose too much money, you can no longer play the game.

A fundamental tenet of long term investing is this. Be greedy when others are fearful and fearful when others are greedy. One of the best times to invest is when uncertainty is the greatest and fear is the highest.

2) Ray Dalio, Bridgewater Associates

> *?The biggest mistake investors make is to believe that what happened in the recent past is likely to persist. They assume that something that was a good investment in the recent past is still a good investment. Typically, high past returns simply imply that an asset has become more expensive and is a poorer, not better, investment.?*

Nothing good or bad goes on forever. **Investors repeatedly make the mistake of thinking, *?this time is different.?*** The reality is that despite Central Bank interventions, or other artificial inputs, there is never a repeal of the business and economic cycle. Ultimately, what goes up, must and will come down.

Wall Street wants you fully invested ?all the time? because that is how they generate fees. However, as an investor, it is crucially important to remember that ?price is what you pay and value is what you get.? Eventually, great companies will trade at an attractive price. Until then, wait.

3) Seth Klarman, Baupost

> *?Most investors are primarily oriented toward return, how much they can make and pay little attention to risk, how much they can lose.?*

Predictive because of cognitive biases, investor behavior is the most considerable investment risk. *?Greed and fear?* dominate the investment cycle of investors, which ultimately leads to *?buying high and selling low*". Try to factor this into your strategy for investing long term.

4) Jeremy Grantham, GMO

> *?You don?t get rewarded for taking risk; you get rewarded for buying cheap assets. And if the assets you bought got pushed up in price simply because they were risky, then you are not going to be rewarded for taking a risk; you are going to be punished for it.?*

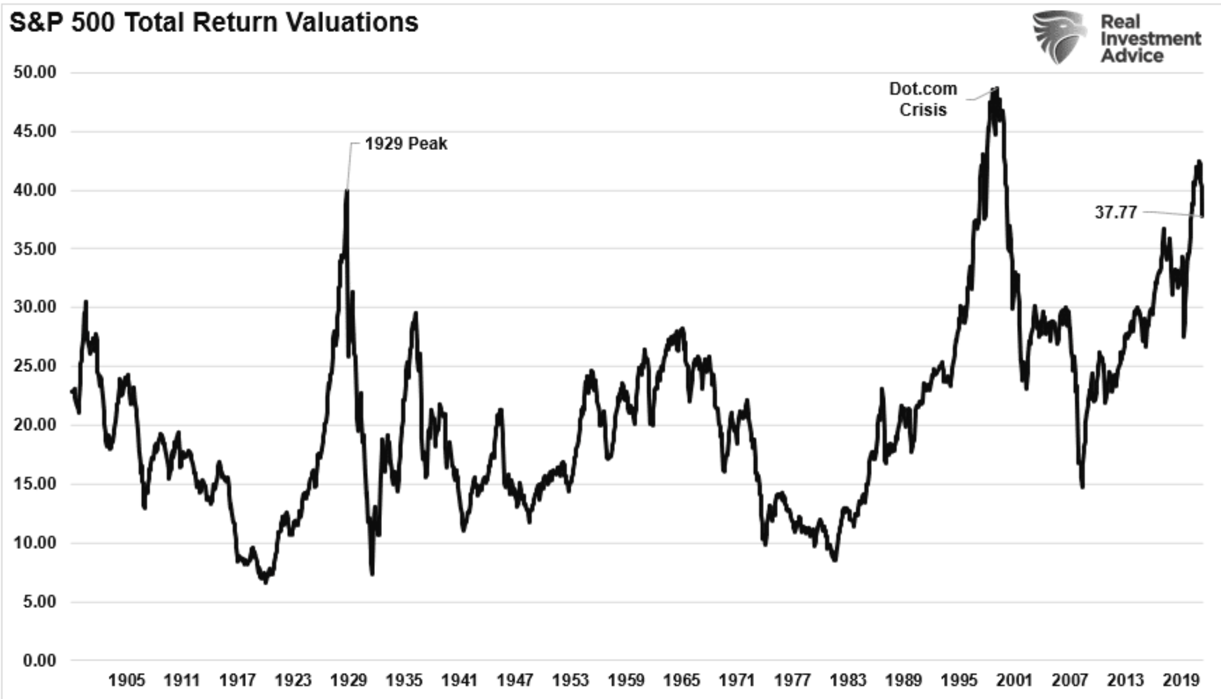
Successful investors avoid *?risk?* at all costs, even if it means underperforming in the short term. The reason is that while the media and Wall Street focus your attention on chasing market returns in the short term, the excess ?risk? built into your portfolio will lead to inferior long term returns. Like Wyle E. Coyote, chasing financial markets higher will eventually lead you over the cliff's edge.

Follow these classic risk management rules.

5) Howard Marks, Oaktree Capital Management

> *?Rule No. 1: Most things will prove to be cyclical.*
>
> *Rule No. 2: Some of the greatest opportunities for gain and loss come when other people forget Rule No. 1.?*

As with Ray Dalio, realizing that nothing lasts forever is critically important to long term investing. **To *?buy low,?* one must first *?sell high.?*** Understanding that all things are cyclical suggests that investments become more prone to declines after long price increases than further advances.



6) George Soros, Soros Capital Management

> *?It?s not whether you?re right or wrong that?s important, but how much money you make when you?re right and how much you lose when you?re wrong.?*

Back to risk management, being right and making money is great when markets rise. **However, rising markets tend to mask investment riskquickly revealed during market declines.** If you fail to manage the risk in your portfolio and give up all of your previous gains, you lose the investment game.

7) Howard Marks, Oaktree Capital Management

> *?The biggest investing errors come not from factors that are informational or analytical, but from those that are psychological.?*

The biggest driver of long term investment returns is minimizing psychological investment mistakes. Baron Rothschild once stated, *?Buy when there is blood in the streets.?* Such means that when investors are *?panic selling,?* you want to be the one they are selling to at discounted prices. The opposite is also true.

> *?The absolute best buying opportunities come when asset holders get forced to sell.? - Howard Marks*

As an investor, you must step away from your *?emotions?* and look objectively at the market around you. Is the market reflecting *?greed?* or ?*fear??* Your long term returns will depend significantly on how you answer that question and manage the inherent risk.

> *?The investor?s chief problem ? and even his worst enemy ? is likely to be himself.?* ? Benjamin Graham

Final thoughts on long-term investing success

With the rapid speed of social media and the "short-termism" perpetuated by the media, it's easy to lose sight of what is necessary to achieve long-term investing success. We hope our words of wisdom help you frame your strategy for accumulating wealth in the long term.

We are a wealth management firm in Houston serving clients across the country. If you'd like to speak with us about your portfolio or financial plan, please set up a time to talk.