RIA Advice

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> ***"Wisely and slow; they stumble that run fast.?*** *(Romeo and Juliet)*

All throughout history we have heard of the triumph of the tortoise over the hare and the mantra that slow and steady wins the race. Shakespeare reminds us of this wisdom and we contend that this mantra is one of the most critical elements of successful investing. Executing a consistent investment plan and process over time is the key to wealth preservation and growth, and we believe that lower volatility strategies *(avoiding the stumbles)* will generate the highest long-term returns. Higher volatility investments (those that run fast) will have short bursts of outstanding performance, but tend to experience higher frequency and severity of downturns. The mathematics of loss is not kind to the hares. ***If you lose (10%), you have to make 11% to get even; lose (20%), you have to make 25%; lose (50%) and you have to make 100% just to get your capital back.*** Investing in a low volatility strategy requires patience, and Shakespeare had some thoughts on that as well.

?What cannot be preserved when fortune takes, Patience her injury a mockery makes?? (Othello)

Great investors understand the value of patience and follow a disciplined approach. They stay the course, even when going through difficult periods *(when fortune takes)* and redouble their efforts to remain disciplined when the strategy is out of favor. Great investors know that good strategies (and good investments) will play out well. When the only thing that has changed is the price of an investment, it is time to increase the position, not sell it, and patience will be rewarded over time as the price comes back to reflect the true underlying value. Patience is also necessary in executing long-term focused investment approaches like the Endowment Model.

?Well, God give them wisdom that have it; and those that are fools, let them use their talents.? (Twelfth Night)

The gifts of wisdom, insight and perspective come from accumulated experience, diligence and plain old hard work. Those that chose the easy (foolish) path to riches, get what they deserve. This preference for the easy path is why the average investor under performs the averages *(and the Endowments)* by such a large margin. The real challenge is that long time horizon investment strategies are not exciting.

?Life is as tedious as a twice-told tale, vexing the dull ear of a drowsy man.? (King John)

Good investing is boring. Paul Samuelson said,

?Investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas.?

George Soros also has a view on the excitement of investing, saying

?If investing is entertaining, if you're having fun, you're probably not making any money.?

In the spirit of this letter, if you want entertainment, go to the theater.

?Things sweet to taste prove in digestion sour.? (Richard II)

It is a•general rule*(with some exceptions)* that what is good for you tastes bad and what is bad for you tastes good. The same rule applies to investing. When you make an investment that makes you feel good *(sweet to taste)*, you will likely lose money *(sour in digestion).* Conversely, when you make an investment and you feel badly (sour to taste), you will likely make money *(sweet in digestion)*. I used to say that a great investment advisor?s job was to maximize the discomfort of the client/board by constantly making good but difficult decisions that make you sick to your stomach, but then I realized that if you maximize discomfort, they get rid of you because you are an irritant. So the real trick is to optimize their discomfort, keep them uncomfortable enough to make good investments, but not so uncomfortable that they fire you. In other words, slip a little sugar in with the vegetables every now and again. Another area where comfort is a problem is fees.

?But the comfort is, you shall be called to no more payments, fear no more tavern-bills.? (Cymbeline)

The jailer says to the prisoner to look on the bright side that he no longer has to pay his bar tab, but we would say that is a bad trade. Applying the same logic to the markets, if a stock you own falls a lot, not having to pay taxes also seems like a bad trade. **We believe that paying taxes *(and incentive fees)* is a good thing, because it means you have gains.** Contrary to the cult of Bogleization, you want to maximize fees in investing *(not minimize them)* so long as the bulk of them are incentive based. In what business does the best person charge the least?

?You pay a great deal too dear for what's given freely.? (Winter?s Tale)

You always get what you pay for, free advice is usually very costly, and free money is more costly still. When all companies are propped up by abundant credit, value destructive behavior will occur and the price paid later will be much higher than anticipated. Never invest on a stock tip and be wary of investment opportunities where the fees are below average, as you must ask yourself why would someone charge below market rates for their expertise? Groucho Marx famously quipped,

?I would never join a club that would take me.?

The best managers don't need *(or even want)* your money and gaining access to them is priceless *(like buying them when they have their second worst quarter ever in Q1).* So on the subject of investing, a simple summation.

?No profit grows where is no pleasure ta'en.? (Taming of the Shrew)

Shakespeare is imploring us to always love what we do as there is little to be gained in partaking in things we have no interest in. What I love most about the investment business is that it is constantly changing, evolving and is something that can be engaged in for an entire lifetime. **That said, the very best part is that you actually get better *(contrary to many endeavors)* as you get older and wiser *(where wisdom is defined as learning from mistakes).*** As my manager friend Bill Duhamel says,

?With every investment we get richer or wiser, never both.?

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