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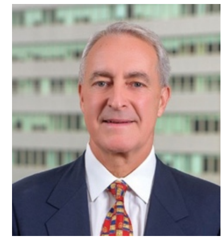
THE BORIS-KAPLAN GROUP

Thoughts for Investors



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Winter Newsletter

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"We live, my dear soul, in an age of trial. What will be the consequence, I know not."

– John Adams to Abigail Adams, 1774

For most investors the current market conditions have not been kind. The S&P 500's three-year total return is a negative 8%. Even Warren Buffet's three-year total return is a negative 6.8%. During times like these I believe it is worthwhile reviewing the investing rules of long-time successful investors. One of my favorite investors is John Templeton. In this newsletter I would like to summarize some of his rules for investing success.

- Invest for maximum total real return. Because of inflation, today's dollars buy what 15 cents bought after World War II, and that doesn't include taxes.
- Don't trade. The more you buy and sell the more opportunities there are to make mistakes.
- Never invest solely on a tip even though it is psychologically compelling.
- Remain flexible and open minded about types of investments. There are times to buy blue chips, small companies, growth stocks and value stocks. No one kind is always best – even bonds.
- Buy low. This is not as easy as it sounds. Prices become high when everyone loves stocks and low when everyone hates stocks. During times when investors hate stocks demand is low, everyone is pessimistic, analysts and economists are divided, and the media is discouraging. As John Templeton says, "People love to buy things on sale – except for stocks."
- Search for bargains among quality stocks. In a past newsletter we outlined the characteristics of quality stocks – large market opportunity, superior products and execution, barriers to entry and strong management. Remember you are always buying either earnings or assets.
- Buy stocks on a case by case basis, not because of market trends or economic outlook. In a bull market a "rising tide lifts all boats" (even the leaky ones). Though in a bear market as Walter Bagehot, 19th century editor of the economist states "the rocks only show once the tide has gone out."
- Discipline yourself to diversify not just by company, industry, risk and country. Diversify also by time. Over the years the market is alternately higher, lower, higher and lower. By investing continuously over time you will remove decision making by emotion, smooth out the bumps of buying too high and selling too low, and thereby increase your chances for success.
- Aggressively monitor your investments. No bull market is permanent. No bear market is permanent either.
- Don't panic. Sometimes you'll be caught in a downturn and won't have sold. If you didn't own the stocks would you buy them now? So the only reason to sell them now is to buy other more attractive stocks.
- Learn from your mistakes. The only way to avoid mistakes is not to invest – which is the biggest mistake of all.
- Don't be fearful or negative too often. Of course there will be corrections. Over time though in the words of Thomas Watson, Sr., IBM's founder, "If you want to increase your success rate, double your failure rate."

"Nothing in the world can take the place of persistence. Talent will not; nothing is more common than unsuccessful men with talent. Genius will not; the world is full of educated derelicts. Persistence and determination alone are omnipotent."

– Calvin Coolidge

AUDI PARTEM ALTERAM

Hear the Other Side

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If you would like to discuss the topic of this newsletter, or our team's approach to investing, please feel free to contact us by email at al.boris@alexbrown.com.

Thoughts for Investors is a quarterly newsletter written for clients since 1997 by this author. The purpose is two-fold. First, it is meant to help explain the investment philosophy that guides the author's approach to portfolio management. Second, it is meant to remind readers of important behavioral skills that the author believes are necessary to help them become successful investors. The author welcomes comments and criticisms, especially if they can be shared for the betterment of all investors. Quotation is permitted with full attribution.

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