



Albert C. Boris, III  
Managing Director, Investments

# Thoughts for Investors

## What Investors Can Learn From Nature

Summer 2015

Well spring has finally arrived. The long, dark, cold, snowy winter is gone and perhaps the only people lamenting that fact are skiers. It's my favorite season of the year (besides summer, fall and I guess winter) because so many plants and trees are in bloom, from snow drops and squill to daffodils, forsythia and cherry trees. I believe stocks, like plants and trees, are deferred gratification items. Allow me to explain.

***"If you are not too early, you are too late."***

- Bill W., client

To enjoy the beauty of flowers in spring, one must plant The previous fall and then wait. Despite being a gardener all my life, there are still times when I am shocked by what has and what has not survived the winter. Everyone knows that plants need warmth, light, moisture, and nutrients. But did you know that we still do not know what exactly triggers the onset of growth? Only the plant knows when all those requirements are perfectly balanced and its growth cycle can begin. One of the amazing aspects of nature is that waiting is not a problem because nature is patient. I believe as investors we can learn from nature. Here are my top ten observations.

***"Flowers are restful to look at. They have neither emotions nor conflicts."***

- Sigmund Freud

1. First and foremost, you can't plant one seed and expect a garden. I have seen many investors, especially those starting a portfolio, buy one stock and expect a great flower show. When it doesn't happen, they give up and rationalize that investing

is not for them. I believe investors should plant multiple seeds because unfortunately, not every seed will germinate.

***"Life begins the day you start a garden."***

- Chinese proverb

2. You can plant flowers that need sun in the shade or ones that need moisture in a dry area, but it is less likely they will survive. I can never get Lupines to grow in Southeastern Pennsylvania, yet they grow like weeds in the cool mountain climate of Colorado (and what a show they put on). Similarly, investments should align with an investor's desired outcome. Investors who need growth should generally buy stocks. Investors who need (or believe they need) safety should generally invest in bonds. One must make sure the portfolio is built for the results one is trying to accomplish.

***"The best fertilizer is the gardener's shadow."***

- Unknown

3. Don't plant all one type of plant species. Plants and trees have lots of enemies. If deer, rabbits, insects or disease find that species tasty, you'll soon have an empty garden. With a diversified portfolio, one part of the portfolio can be negatively affected while other parts are unaffected or potentially even productive.

4. Some plants and trees bloom in the spring and some in the fall. Some are "perennial," meaning they bloom every year from the same plant and some are "annual," meaning they die every year and new plants are propagated by seed the following year. Some are even "biannual," meaning they survive from year to

year but only bloom every other year. Some take years to mature and flower and others can flower the same season they are planted. Get the picture? It is natural for a diversified portfolio with exposure across market sectors to have stocks that are in and out of “bloom.” Just because a stock has not “bloomed” lately, or on your schedule, or when other plants are blooming does not mean it will never bloom. In a well-diversified portfolio, blooming may be staggered to better achieve investment objectives.

***“What is a weed? A plant whose virtues have never been discovered.”***

- Ralph Waldo Emerson

5. Water the flowers but pull the weeds (in most cases). Many investors do the opposite. They sell their winning stocks (flowers) and keep the losers (weeds).

6. You can plant an apple seed basically for free or you can pay thousands to buy and transplant a mature tree. Your choice. If you fill your portfolio with stocks of large, mature companies which have already “bloomed” they may be priced at a premium and have less growth ahead of them than younger, smaller companies that have not yet “bloomed.”

7. Both small and large trees present challenges for the gardener. Young trees are more likely to be damaged by the lawn mower, and therefore require more attention. Small companies have a higher fail rate, but if you have less invested, the damage to the portfolio may be smaller. Large trees may seem stronger, but if they topple, they can do much more damage. S&P 500 size companies may seem more stable and attractive and thus lull investors into owning more and feeling comfortable. Yet, as GM and Eastman Kodak shareowners know, size didn’t protect them. For the savvy investor, ongoing diligence is required for all stocks in a portfolio.<sup>1</sup>

8. Remember to prune and divide. Dead or diseased branches are unsightly and could infect the healthy parts of the plant. In a portfolio, removing the “dead wood” makes room for wiser investments. Selling

shares with a loss could potentially produce tax writeoffs. Dividing allows you to share plants with friends; gifting appreciated stock to charities or children, also allows you to share.

***“The mighty oak was once a little nut that stood its ground.”***

9. I believe, perhaps the most important rule of gardening is to be patient. Nature can’t be rushed. Neither, many would argue, can investing.

10. If you enjoy the beauty of a garden, but don’t have the patience to weed and water, then hire a “professional” gardener.

***“And some can pot begonias and some can bud a rose, And some are hardly fit to trust with anything that grows.”***

- Rudyard Kipling, “The Glory of the Garden”

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## *Hear the Other Side*

The Boris-Kaplan Group // 1735 Market Street, Suite 1400 // Philadelphia, PA 19103 // T 215.563.2300  
www.alexbrown.com/boriskaplan

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