**Philequity Corner (April 5, 2010)**
**By Valentino Sy**

## The Hare and the Tortoise

During the past few weeks, we have been talking about animals to illustrate our theses on the market. Last week we talked about *Goldilocks and the Three Bears*. Appropriately, we will follow it up with another children's classic fairytale. And since we are celebrating Easter (which children usually associate with the Easter Bunny bringing eggs), it will be fitting to tell the story about *The Hare and the Tortoise* and how they relate to investments.

### Slow and steady wins the race

The story about the hare and the tortoise is a fable attributed to Aesop of Greece. It was translated into English in 1867 as part of the book *Three Hundred Aesop's Fables: Literally Translated from the Greek*. It was adapted into animation by Walt Disney in 1934 as part of the *Silly Symphonies*, a series of animated short films (which I incidentally saw last week on the Disney Channel).

*The story tells about a hare who ridicules a slow-moving tortoise. Mocked, the tortoise challenges the hare to a race. The hare soon leaves the tortoise behind and, confident of winning, he takes a nap midway through the course. When he awakes, however, he finds the tortoise, crawling slowly but steadily, has already won the race.*

### Finding wisdom in unlikely places

We found wisdom in such unlikely places like laws of physics (see our article *Newton's Law of Inertia Applied to the Stock Market*, October 30, 2006), fairy tales (like Goldilocks and the three bears), animals and insects (such as bulls, bears, tigers, pigs, ducks and cockroaches). Just like in the other animals, we found wisdom in the hare and the tortoise.

In investing, we believe that slow and steady wins the investment race too, assuming you invest in the right businesses.

This speaks the idea of investing in a company with a business that you believe in, which was discussed in the Q&A part of our Investment Forum last February and which summarized in a prior article (see *The IPIS Theory*, February 22, 2010). In this article, we said that:

*"When you buy a stock, you should look at it as a business. Look for companies that are no. 1 in their field, or those that if you were to go into business, you would like to be in that company."*

An example we cited is Visa. We know that there is a secular change from paper money into plastic. People are changing their way of spending from cash to plastic. This is a world-wide phenomenon. They are the no. 1 credit card issuer. They have no credit risk.

So invest in a company with a business that you believe in. Hold a core position in that company. Be patient and avoid the mistake of shifting your investment to a losing company with weaker fundamentals.

## Turtle investing vs. Rabbit trading

*"The biggest money is made on long-term investments and not on short-term trading."*

This is another bit of wisdom from *The Hare and the Tortoise*. This is especially true the past year when the bull market was climbing a wall of worry. Investors feared the possibility of a double-dip recession, the sovereign debt problems, the high commodity prices, China overheating and the threat of higher interest rates.

Just like the hare, many investors have traded in and out of the market, moving fast, trying to anticipate corrections and foretelling the market's every turn. In the end, they were likely whipsawed and got nowhere. Because of their worries, many investors invested short-term and sold too early while prices continued to zoom upwards.

On the other hand, there are some investors like the tortoise who, after finding the right stock to invest in, steadily held on to their core investments. Their patience, perseverance and long-term investment strategy are now being rewarded.

## The Buffett Way

Like the tortoise, Warren Buffet believes that the slow and steady wins the race.

During the dotcom craze in the late 90s, Buffett refused to invest in high-flying technology stocks which he did not understand. Instead, he continued to invest in companies with steady earnings and solid businesses. He argues that even if the stock market dropped tomorrow, people would still be drinking Coca-Cola, people would still be shaving (referring to Gillette) and people would still be chewing gum (referring to Wrigleys). In other words, he looks for businesses that he can predict where they will be in 10, 15 or even 20 years.

Many investors during the dotcom craze were like the hare. They jumped out to a big, early lead. In a rising market, the highest risk stocks perform the best. But because of overconfidence (and greed), many stopped paying attention to the market environment and fell asleep. When the dotcom bubble went bust, many of these high-flying stocks went bankrupt and are now worthless.

Meanwhile, Buffett's investments, slowly but surely plodded forward.

## Wisdom from the Sage of Omaha

Below, we share some quotes of wisdom from the Sage of Omana.

On what he looks for in stocks:

*"Buy companies with strong histories of profitability and with a dominant business franchise."*

*"Never buy a business you cannot understand."*

On patience and investment discipline:

*"It is not necessary to do extraordinary things to get extraordinary results."*

*"Much success can be attributed to inactivity. Most investors cannot avoid the temptation to constantly buy and sell."*

On how long he holds on to investments:

*"Always invest for the long-term."*

*"Our favourite holding period is forever."*

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