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PhilEquity MANAGEMENT INC.

PHILEQUITY CORNER

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Investing in the long term

Investments are not meant for those looking for instant gratification. This “quick buck” mentality is discouraged by portfolio managers and investment advisers. Patience is a virtue not just for those emulating the biblical Job. That story has much to teach the investor who can think of the long term. For Job, the early losses were gracefully accepted. The suffering was later reversed by his long-term view of life and rewarded with abundant blessings.

John Maynard Keynes, the father of the economics of demand management known as Keynesian theory, once said that “In the long run, we are all dead.” This much quoted passage from his work, “A Tract on Monetary Reform” (1923) does not really recommend a bias for a short-term perspective. The quote is prefaced by a qualifier— “Long run is a misleading guide to current affairs.” He questioned the belief that a recession corrects itself in the long run without the need for government intervention with a change in fiscal policy, like the raising ramping up government spending in public works. Waiting for things to somehow sort themselves out eventually was not how long-term was defined.

The longer time perspective is like the admonition of tour guides to be careful with their handbags when strolling down the old section of Budapest as gypsies (always victims of stereotypes for petty theft) can easily spot the tourist (taking selfies and posing before landmarks) and make him part with his passport and Euros in his backpack. The tourist is warned—what is at your back is no longer yours.

The fund manager, like the tourist guide, provides these caveats as a way of managing expectations. The advice is intended for the whole trip.

If a stock bought at 10AM then takes a dive to the basement thirty minutes later (as in Independence Day in another country), seemingly looking for shelter, the investor is not to panic and take out his calculator to estimate his intra-day loss but to take a longer-term view. (Maybe, he will reverse himself, as usual?)

The investor understands the concept of “paper losses”, which is defined as a reduction of value which is only virtual, like a bad dream after a heavy dinner. There is no real loss (or gain) until the investment is redeemed. Still, it is good to check what caused the dip. (It’s alright to panic.)

Perhaps the index will still rise and breach again the “9,078” record level it did before. Such faith in the long term is helpful. Opportunities still exist for averaging down on dips and taking advantage of temporary upticks in the Net Asset Value Per Unit (NAPVU) of the portfolio. Partial redemption and subscription to the managed funds is possible.

For certain investments like real estate, jewelry, and even art, the holding period tends to be long-term. These assets may even be kept through the next generation. They tend to appreciate for a longer holding period than more liquid investments.

The admonition for an extended time perspective when investing is to introduce patience as a virtue to embrace even in financial matters. After all, investments are always linked to a listed company's long-term plans as well as the prospects of the business and its competition in the future.

On balance, the ones with a longer time frame should prevail. The gains of the long-term investor are worth the patience such an approach requires. The bias should then be on holding on to stocks with fundamental values and long-term prospects.

When asked how long he likes to keep the stocks he picks, the highly respected Warren Buffet of Berkshire Hathaway famously answered— "Forever."

The "buy and hold" strategy requires both deep research and constant monitoring as well as a long-term view on the future of the businesses chosen for investment. Evaluating trends as they affect businesses in the investment basket is vital. Also needed by a long-term investment portfolio head, with a good reputation and an excellent track record, is a good succession plan and the promise of not selling down his shares after stepping down.