

A Key To Successful Investing

By Leo Abel

Patience. What does this eight letter word bring to mind when you think about it?

Culturally, it has become an almost un-American concept. American society and its citizenry do not like to wait for anything. We have become a fast food, microwave, instant messaging people almost incapable of exhibiting patience.

I have had prospective clients who have cringed, when I have mentioned during interviews, that patience is one of our core investment philosophy principles (**For an in depth discussion of our Six Pillar Process of Money management, please request a free copy of our special report entitled *Helping You Preserve And Manage Wealth With Principled Investing* by responding to this email.**)

While the above statements are obviously true, many of you may be asking yourselves,

"What does this have to do with financial or investment success?"

Those of you with whom we work know we adhere to a disciplined approach to providing investment advice and managing and overseeing your financial resources. *Patience is one of the core principles* we talk about frequently with our clients.

Much can be said about the lack of patience (and many other more egregious acts of commission and omission) at the institutional level and many of the governmental agencies involved in the great financial panic of 2008-2009. However, within this report I am going to focus on how impatience affects individuals.

Over the course of the financial crisis, which turned into an outright panic causing a severe recession, actions on the part of individuals were the root cause of much of the problems.

Think about this issue for one moment.

What do you think would have been the result within the residential housing market if prospective buyers would have exhibited patience when contemplating the purchase of new homes? (*Set aside for the moment other virtues foundational to financial success like: Thrift, Faith, Industriousness, Tenacity, Character, Integrity, Persistence, Knowledge, Organized Planning and Controlled Ambition.*)

Perhaps prospective home buyers would have approached decisions differently. Maybe plans to purchase homes would have been postponed until sizable down payments had been set aside. Possibly the 100% interest only or adjustable rate mortgage would never have been invented. Instead, lenders responded to the incessant need of would be home buyers to have what they wanted when they wanted it.

Again, we could get into governmental pressure brought to bear on banks to make everyone a home owner, or the cries of shareholders for financial institutions to post ever increasing quarterly earnings regardless of the detrimental long term affects on company balance sheets, but those are subjects outside the scope of this report.

Knowing what we know about our society, and the very real tendency of people in general to be impatient, what are the implications for capital market investors?

We know that the financial media and most of its outlets tend to cater to the impatient tendencies of their customer audiences. Streaming data and minute by minute updates on all sorts of what I believe to be "noise" are constantly talked about, written about, regurgitated and debated in the media. Most investors

buy into the idea that they must keep up with all of this "noise" in order to achieve a competitive advantage over other investors.

What are the results of this type of behavior?

Think about the past couple of years. Do you remember what the big headlines were in the media during the spring and summer of 2008? **America's Energy Crisis**; recall if you will, expert after expert brought on TV to talk about how the world was running out of oil. Impatient (to name one of many qualities) investors wanting to cash in on the straight line move in oil to \$200 per barrel, placed disproportionately large percentages of their financial resources in energy related shares just as oil was making a cyclical peak.

Suddenly the energy crisis was replaced in the media with **The Financial Crisis**. Remember, no one ever came on to officially end the previous crisis with the new apocalypse, they simply replaced it. As this crisis spread and enveloped the world, experts spoke of the problems as insoluble.

Our research shows that the greatest amount of flows out of the stock market by investors took place in October of 2008 and March of 2009. Investors pulled the plug on their long term plans after the market had gone down 57% between December of 2007 and March of 2009, missing out on of the massive resurgence which has taken place since then. Impatience, along with other root causes is to blame for this behavior.

Don't look now, but if you turn on your TV, chances are you will see or hear about **America's Health Care Crisis or America's Political Crisis**.

Again, no official end has come to the financial and economic crises. Marketing departments must be gaining better viewership from airing these new issues. Historically, what have been the effects of investors who have viewed coverage of these and other crises as signals to "**do something**" or more appropriately, some series of things with their investments? Research demonstrates clearly two issues:

First, most investors are outperformed by the markets and *second (and most disturbing), most investors are outperformed by their own investments.* **(For a more in depth discussion of these and other investor behavioral issues, please request a free copy of our special report entitled, *Helping You Preserve And Manage Wealth With Principled Investing*, by responding to this email.)**

Michael Lewis, editor of *Panic- The Story Of Modern Financial Insanity*, is quoted as saying, "**How many times does the end of the world as we know it need to arrive before we realize that it's not the end of the world as we know it?**"

Warren Buffett, whom I quote frequently, has this to say about the stock market;

"The stock market is an extremely efficient mechanism for the transfer of wealth from the impatient to the patient investor."

Tying these two concepts together: First, irrespective of how severe the downturn, it's never the end of the world. Second, that for investors to be successful, they must exhibit patience.

How do we help our clients manage their investments?

Knowing what we know about most investors and their inability to practice patience, does anything come to mind as being a way to do things differently from the crowd? I hope the answer is obvious.

Bill Miller, the legendary investor, refers to this competitive advantage as, "**Time Horizon Arbitrage**", which is the ability to exploit inefficiencies in markets by doing what the majority of participants don't have the ability to do...***practice patience***.

To all of you with whom we work, a sincere thanks as the work we do together is my life's professional passion. The work keeps me up late at night and up early in the morning with a spring in my step. So again, my heartfelt thanks.

During this holiday season, I would like to wish a belated Merry Christmas to all of you and your families and to our Jewish friends, belated Happy Hanukah.

Here's to your continued success in 2010 and beyond.

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