

OUTSIDE THE FLAGS

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Bards of the Bar

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As a topic of conversation, investment is like sports. Everyone has an opinion. And the strongest opinions often come from those who spend more time in front of the TV than out on the field. Practitioners, meanwhile, are wary of anything labeled a sure thing.

Indeed, it's one of life's ironies that the people who know the least about a subject sound the most sure of themselves. In investment, these are the ones who prop up bars telling anyone who will listen that they have found the path to certain wealth.

These pub philosophers tend either to be permanent bulls or permanent bears about the market. They have their standard story, and they adapt the facts to fit. Some of them even end up writing newspaper columns and hosting television shows.

By contrast, some of the world's most respected and seasoned investors strike a humbler tone, having learned from personal experience about the unpredictability of markets and deciding to focus instead on those things within their control.

Take, for instance, the frequently heard line that smart investors should seek to time their entry points to markets and wait for the volatility to clear. We are hearing a lot of that right now as the European crisis dominates market attention.

Writing about this in 1979 before one of the biggest bull markets in history, Warren Buffett said: "Before reaching for that crutch (market timing), face up to two unpleasant facts: The future is never clear [and] you pay a very high price for a cheery consensus. Uncertainty actually is the friend of the buyer of long-term values."¹

Another line from the pub philosophers is that the job of an investment expert is to spot the best market-beating returns and harvest them before someone else finds out.

Asked about this in 2007, two years before his death, legendary investment consultant and historian Peter Bernstein said it was better to focus on risk than return. “The central role of risk, if anything, has grown rather than diminished,” he said. “We really can’t manage returns because we don’t know what they’re going to be. The only way we can play the game is to decide what kinds of risk we’re going to take.”²

A third perennial pub conversation is the role of stock picking in investment success. The line here is that the key to wealth building lies in painstakingly analyzing individual stocks and buying them based on a forecast or even a hunch about their prospects.

Prompted by a newspaper reporter for his opinion on that piece of conventional wisdom, Charley Ellis, long-time Wall Street observer and the founder of Greenwich Associates, said the truth was actually quite the opposite.³

“The best way to achieve long-term success is not in stock picking and not in market timing and not even in changing portfolio strategy,” Ellis said.

“Sure, these approaches all have their current heroes and war stories, but few hero investors last for long and not all the war stories are entirely true. The great pathway to long-term success comes via sound, sustained investment policy, setting the right asset mix and holding onto it.”

While that’s probably not the kind of message you are likely to hear from the instant experts who prop up your local bar, it may be a more durable and a more useful one.

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1. Warren Buffet, “A Warren Buffett Reader,” *Forbes*, August 6, 1979.
 2. Jonathan Burton, “Alpha and Bets,” *MarketWatch*, April 30, 2007.
 3. Barrie Dunstan, “Global Money Masters,” *Australian Financial Review*, November 2006.



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