



Fisher Funds

Investor Education Centre

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Keep tabs on fast speculators

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As a reasonably high profile fund manager, my actions are watched. I know that there are investors, if you can call them that, who watch what we buy and sell, and try and second guess what we are going to do next.

Every now and then, I log onto the blogs and check out what people are saying. These blogs are often bunkum, but I always find it interesting to read the short-term speculators views.

There is a real difference between short term speculators and long term investors. I am a long term investor, and an age-old battle has raged for decades between long term investors and short term speculators.

Let's start with some definitions. An investor is generally anyone who buys a stock with the intention of owning a piece of a business for a considerable period of time. Investors believe that valuations are the most important criteria for investing and they will not invest without completing some form of fundamental analysis which tells them what sort of business they are investing in and what it might be worth in the future. Investors will generally hold investments for the long term, and invest on the basis of what a business might be worth in the future.

Speculators on the other hand, look to make big profits by taking calculated risks. Speculators will make quick decisions and their holding periods might be a matter of days or weeks (compared with years for the investor). Speculators are willing to buy a stock without knowing anything about the company, and they are willing to take on risk in the hope of making quick, and big, profits. Speculators will sell quickly if things change, and will even be willing to sell short – which essentially means they'll sell stock they don't even own, in the hope of buying it back later at a cheaper price.

There has been something of a backlash against short term investors, or speculators, since the global financial crisis. Indeed, the GFC has, at least in part, been blamed on short-term thinkers, out to make a quick buck.

One opinion piece that has been doing the rounds recently is a recommendation to turn stock speculators into investors by making share ownership more like private investment. The recommendation is that there should be two classes of shares for all listed companies.

Class A shares would have to be held for at least one year after purchase. Class B shares could be traded freely. Only Class A shares would be eligible to receive dividends, and they would be given favourable tax treatment. Class B shares on the other hand, would not receive dividends – why should you be entitled to a share of a company's long-term accumulated wealth if you are just a drive-by investor? And they would be taxed just like gambling debts – if you are frequently rolling the dice, you are not investing in the strength of an underlying company or economy, so you shouldn't get any tax breaks.

I'm biased, I know, but a change like this could drive thinking back to where it always should have been.

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