



# Fisher Funds

## Investor Education Centre

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### **Long and short of it – patience pays**

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One of the first rules I learned about investing was that to be successful, you need to be patient. The time-honoured investment strategy employed by investment gurus around the world for many decades was buy and hold.

A buy and hold strategy means you find great businesses, buy them at a reasonable price, and then hold on to them for as long as they remain good businesses. Over time, the success of the business would be reflected in a rising share price.

Unfortunately the increased market volatility of the past ten years has led a number of investors to decide that long term investing is dead.

Rather than buying and holding for 3-5 years, waiting for a company's share price to reflect a company's profit performance, investors have become more active traders and a long-term horizon is now measured in months.

Based on data from the New York Stock Exchange, in 1940 the mean holding period for US investors was around 7 years. US investors used to be long-term investors. By the time of the 1987 crash however, the average holding period had fallen to under 2 years. By 2007 it was less than 7 months. A similar pattern exists in the UK where the average duration has fallen from around 5 years in the mid-1960s to less than 7.5 months in 2007.

Long term investing is not dead for all investors. I certainly believe that it is an easier and more profitable strategy than trying to time the right entry and exit points and hoping that the market will move in your favour in the short term to make money from a trade.

But the short-termism displayed by a lot of market participants does make investing harder, and it makes life hard for companies.

Increasingly, share prices react to very short term snippets of information, many of which are largely irrelevant to the long term success of a business. It must be frustrating for a company to see its share price plummet 10% because its six month revenues were 2% less than analysts forecast.

Last week Michael Hill issued a challenge to shareholders saying that if they wanted to be 'wimps' and focus on the short term, they should get out. But if they wanted to be in for the long term "and see a star that goes to the moon" they should hang in there. I'm not sure about his astronomical analogy but I understand the sentiment.

Another chief executive remarked to me recently that a larger shareholder wanted to change the composition of the company's board. Problem is, this shareholder has been in and out of this company's share register five times. Why should the company make changes to satisfy the demands of this shareholder whose time frame and loyalty are short indeed?

Long term investing is a time-honoured strategy. Short term investing hasn't proven to be a clearly superior strategy. One thing is for sure; successful investors should choose one of these strategies and stick with it. Trying to be both short and long-term just won't work.

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