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Article Background

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Yahoo! Update

My clients know that I don't try to predict the future, but I do pay attention to what investments represent good (or bad) value. History shows us that good value stands up well over time.

A year or so ago I picked Yahoo!, the net portal stock, as an example of an overvalued stock. Although Yahoo! subsequently rose to about $250/share in March of 2000, it is now trading back at about $60, down $190 or 75% from its peak.

Please note that I have never said that Yahoo! was a lousy company or that it would not succeed as a business. (Yahoo! announced a profit of $50 million US in September). I just said it was likely to be a lousy investment.

Investor Behaviour II

In October I went all the way to soggy Vancouver to hear Nick Murray, a 33-year investment industry veteran. One of the things he discussed is "The Great Lie".

"The Great Lie" is the notion, trafficked mostly by financial journalists, that short-term investment performance will get you to your great goals. A variation on the theme is that you can achieve top performance by yourself using discount brokerage, online trading, up-to-the-minute information via the internet, or other tips from the journalist. These people prattle on about how you can make a mint from a handful of stocks. Like candy to children, it is tempting.

The illusion that investment performance will get you to your goal is not just a mistake, because the traffickers, mostly journalists, know full well that it just ain't true. When these people push an idea that they know is wrong, it isn't a mistake – it's worse. Let me explain.

A couple of years ago I was speaking to a corporate client's senior people. I was making the point that Dell Computer had just gone up in price six-fold in two years, one of the few stocks in history to do so. One of the attendees put his hand up and said "I've owned Dell over the last two years and I've lost money on it." He went on to explain to his stunned colleagues that although Dell stock did in fact go up six-fold in two years, it didn't go straight up.

Problem was, Dell didn't just fluctuate. Dell stock pitched from over US$50 to below US$37 five times in 18 months. Each swing was roughly 35% of the value of the stock. Hard to hang on to, no matter who you are.

This fellow would buy it after it had run up, just in time for it to fall back. As it fell he would get very nervous and sell it just in time for it to turn around and go back up. So, he wound up actually losing money by investing in a stock that went up six-fold in two years.

How, then, does one succeed? Take the example of another client of mine. This investor put about $55,000 into Templeton back in 1983. It is now worth more than $500,000. Is Templeton the top performing manager since 1983? I don't think so. Has Templeton been in the top half of all managers every year? No, they haven't. In fact, they have been in the bottom quartile recently. (Is Templeton suddenly stupid?) Is this a highly successful investor? He certainly is. In fact, will any journalist please show me an investor who has followed the journalist's advice and generated a ten-fold increase in value of their investments? (He can't. That's why he's the journalist and I'm the investment advisor.)

Why is the apparent importance of short-term results such an illusion? For one thing, all the world's great investors agree that it is. Maybe they know something. Only the media feel that up-to-the-second information is important…but that's their job. For another thing, we don't know anyone, nor do we know anyone who knows anyone, who can consistently predict the future. All the world's information at your fingertips via the internet (and at zero cost) doesn't help see tomorrow.

Fact is, it doesn't matter much to an investor what the price of things is from one day, or even one year, to the next. What does matter is that my clients' portfolios are tailored to their requirements, that the money managers invest in high-quality assets that will prosper over time, and that my clients have the confidence that their investments are well looked-after so that they have the freedom to pursue their own goals in life.