The Investor's Creed and Your Investment Portfolio

Growing up at Lake Hopatcong in Northwest Jersey, the most popular entertainment around was the rickety old Roller Coaster at Bertrand Island Park. The excitement would build as you ascended the first peak, anticipating the breathtaking plunge; eyes wide open (or shut), screaming from the thrill with a white-knuckled grip on either the safety bar or your date's hand, as she pretended to share your fear. Three times through the process, hoarse at the finish, but ready for more!

The "shock" market is the adult version of childhood thrill rides, but with no predictable beginning or end, and no way of gauging the size or duration of the peaks and valleys. This is one of the very few things that can actually be known about The Market, security groups, and sectors. With individual securities, the ride's direction may end abruptly at any point along the track, positive or negative! An appreciation of this admitted over-simplification is vital to your financial future... the temporary distress (or euphoria) in your portfolio Market Value is not. The thrill (remember?) is in the plunge; the fear should be building up during the ascent.

Wall Street analysts and investment commentators squander millions of words in their daily explanations for, every movement, every turn, and every bump along the ride. Many insult our intelligence with predictions of future rallies and corrections... but why? None of this microanalysis can provide a reliable answer to the question you ask yourself most frequently: What's going to happen next? Will those (pick a sector) companies survive? Will the market rebound to new highs, or sink even lower?

The solution is to operate your investment program within this known, volatile and unpredictable, thrill-ride environment that is the reality of investing. The whys, wherefores, and whens being much less important than the decision-making model you put into place to deal with them. What you do next is always in your hands (or heads) alone and you should be prepared to do something nearly every day. Doing nothing must be a decision to do nothing. A realistic, thrill-ride, decision-making model need not be thrilling at all, but it must include these two action decisions:

(1) Buy decisions that are made along the downward path of the cars as they glide, tumble, or free-fall on the (undefined by calendar partition) track of time. It's probably smarter to ride in the ones that provide warranty protection in the form of dividend payments, a history of profitability, a low P/E, and high fundamental quality ratings. Even such stalwarts, in spite of their intrinsic value, will occasionally become available at fire-sale prices; so don't even think of buying them until they have started down the hill by at least 20%. As every experienced Storm Runner enthusiast knows, not all of the hills are steep, and many will involve a variety of twists and turns before the next ascent. So don't do your buying all at once, shop slowly, diversify properly, and be patient... the ride has no reliable schedule.

In Your Money and Your Brain, financial columnist Jason Zweig observes that Wall Street obsesses on price while it ignores value. This is as deep as it is simple, and of nearly Eureka proportions. Price changes are more a function of knee-jerk reactions to current events. Value is a whole 'nuther issue, that rarely changes on a day-to-day basis!

(2) Sell decisions, therefore, just have to be made during the ascent, because unlike the local amusement park Vortex, the top of the hill is covered with darkening clouds of speculation as the altitude numbers accelerate. The Sell trigger (The single most important investment thought that people fail to think about most frequently.) must be determined carefully to assure that it is always a reasonable number. It also must be thought about in profit-taking, not loss-accepting, terms. Here, again, there is no need to think about thrill-ride numbers... there's no such thing as a bad profit (except in the purgatory of hindsight). On the way up, smaller numbers work well so long as buying opportunities are plentiful. Three quick fives are better than a long-term ten, but never look for more than ten and you will always have plenty of spending money when this particular ascent unravels, as they always do. It's always OK to take less, and never allow the greed monster to make you hold out for more. Oh, one other thing. Don't delay the profit taking because the buy list has shortened. The shorter it gets, the closer the top of the hill.

The Investor's Creed (Google it) summarizes this operating system in terms of available portfolio "smart cash". During Stock Market rallies, cash should build up in your portfolio because there are simply more opportunities for profit taking than there are new lower priced investment opportunities. Cash will dry up during corrections because new opportunities abound, AND, because prices fall while value remains intact. Consequently, it is often wise to add shares to value stock positions (and dollars to investment portfolios) when it seems really stupid to do so! Interestingly, interest rate sensitive securities can be viewed in the same manner, further supporting the use of CEFs for the Income portion of the portfolio. When the going gets tough, the numbers get ugly, and the tough go shopping for under-priced values.

If you can make yourself operate your portfolios in this manner, your long run investment success will become child's play and the Wall Street Medusa will become your favorite ride!

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Professional Portfolio Management since 1979Author of: "The Brainwashing of the American Investor: The Book that Wall Street Does Not Want YOU to Read", and "A Millionaire's Secret Investment Strategy"
