

## Charlie Brown the Retail Investor



Last week I tweeted: Professional investors would be sad if retail left the mkt. Lucy would feel the same if Charlie Brown gave up trying to kick the football.

Now, I don't like being cynical, but there is smart money and dumb money. Some of the smart money is retail. My mother and my late Father-in-law would qualify as "smart money." Most retail investors do not qualify as smart money.

Alice Schroeder spoke to the Baltimore CFA Society last week, on 11/7, and talked about Warren Buffett and his thought processes on investing, and the degree of focus he brings to his work.

No, average people can't do what Buffett does. 99.9%+ of people can't do what Buffett does. Buffett leads the league in terms of the number of dollars of excess return he has created.

Most retail investors would be better off outsourcing to an investment advisor running separately managed accounts, which is more tax-efficient than mutual funds, and letting them brave the vicissitudes of the markets.

It is not that the investment advisor will beat the averages, but if he has a long enough time horizon and does not give in to panic and greed as most retail investors do, he will provide value to his clients. He protects them from human nature.

That said, many investment advisors are subject to the same pressures, because they fear the reactions of their clients, if they underperform.

You might argue, "But I can buy index funds, lower my expenses, and live with modest underperformance, rather than greater underperformance on average from active managers." If you can do that, and control your emotions, good. Most can't. They sell in a panic at the bottom, and allocate more near the top. People can argue over rebalancing, but it does help people make better investment decisions, on average.

Though I am not fully happy with my performance for my clients, I have not changed my methods that worked so well for me in the past. My methods that have worked well will work well again.

What I can say is that toward the end of a fiscal year, I sell one significant loser. My clients gain the tax benefit of a long-term capital loss. I may buy it back after the wash sale rules expire. If I buy it back, it will be after significant study. I don't fall in love with stocks, though I usually hold them for three years on average.

As it is, whatever my clients get, I get. I am the the single largest investor in my ideas, and clients get a clone of my portfolios, whether stocks or bonds.

Those who invest with me get my slowness to act. My portfolio turnover is around 30%/year, versus 120% for most mutual funds. Most investment decisions take time to work out, and retail investors leave before the workout occurs, and after disappointment.

I am not asking you to invest with me. I am encouraging you to think more long term with your investments, and also consider how you can incorporate a margin of safety in your investing.

Aim for "pretty good" investing, and you might succeed. Aim for "best" investing, and you will likely fail. That's the way of the market, on average.

And if I were Charlie Brown (who reminds me of my father) I would say to Lucy, "Okay, hold it there!" And then, I would walk home, hug Snoopy and Sally, and get a good night's rest in bed, and let Lucy suffer from holding the ball.