



*“The stock market is a device for transferring money from the impatient to the patient.”*

Warren Buffett

*“Time is the friend of the wonderful business, the enemy of the mediocre.”*

Warren Buffett - Letter to Shareholders 1989

One clear and simple investment edge that anyone can choose to take advantage of is patience. It doesn't require a lofty intellect or the ability to do long division in your head or a vast bank of computers crunching algorithms. All it requires is a fundamental understanding of roughly how much a particular security is worth and the temperament to wait until it can be bought, or sold, at a relatively attractive price.

Surprisingly this is an edge that few are able, or choose, to take advantage of. Institutional investors, which own around 90% of the Australian share market, are constantly being judged on their most recent quarterly returns. (As one hedge fund manager who narrowly survived the GFC told me a few years ago, “We had institutional investors who were very patient. So long as the quarterly results were OK.”) Over the past year a number of (talented) fund managers, both locally and overseas, have been driven to close their funds on the back of relatively poor performance over a very short time frame. Given that we are able to choose this luxury as investors, it would be foolish to ignore it.

We can also choose to invest in businesses that demonstrate patience. There is little I like more in a business than the preparedness to take decisions that will have a negative effect on reported earnings, but which will ultimately make it a stronger business. I am pleased to currently see this behaviour in a number of companies we are invested in. Interestingly the bulk of these are run by founders, who continue to receive significantly more reward through their equity stake in the business than they do from their remuneration. Incentives matter.

Rather than jumping from stock to stock, it is often much more productive to do nothing – other than try to arrive at the best answer to the question of “roughly how much a particular security is worth” – and then cultivating the disposition to both forego those opportunities that don't stack up and pounce on those that do.

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