Take This Investment Story To Heart And Profit From It

Saturday's With Jim

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Dear Friends,

The Prudent Speculator (no, we're not plugging it) shows the wisdom of buying cheap, unloved stocks and holding them for years. Currently written by John Buckingham, the Prudent Speculator gained an average of 15.1% a year (16,937% overall) from the mid 1980's through December 2016. The Wilshire 5000 (5000 stocks representing the entire U.S. market) gained 11.3% ($4,952% overall) in the same period.

Prudent Speculator did absolutely super over roughly 30 years and completely smoked the broad U.S. stock market. But why was there such a huge gain? One key to the 16K return is compounding – investing the proceeds and the dividends over and over for some 30 years. What does 16K% look like? Starting with $1,000 in the mid 80's a 16,937% return would yield $16,938,000 on December 31, 2016. The 11.3% return of the broader market would have yielded only $4,953,000 starting with the same $1,000. It might seem like math magic, but compounding turned an annual 4% additional gain into a sum four times larger than the 11.3% return. So what did it take to get that kind of money (not inflation adjusted by the way, but still awesome)?

The Prudent Speculator Method

Buckingham and the founder, Al Frank (who passed in 2002), bought value stocks in companies that are smaller than the market average. Value and small size are associated with outperformance of the market. But a lot of people are smaller company investors and don't make the returns Frank and Buckingham have made. There must be more secret sauce.

Buckingham and Frank had conviction, holding their stocks through thick and thin for long periods. Their average holding period is four years and they have held some stocks far longer. But all of this said, could a mere mortal have matched the Prudent Speculator returns? What did it take?

It took sticking to their convictions, riding through the October 1987 one day crash when the portfolio lost 60% of its value. We don't know what it lost in the 2000-2002 and 2007-2009 bear markets. Could any of us have withstood a 60% loss and stayed with the program? Doubtful. Furthermore, they didn't market time, raising cash to lower volatility and putting it back to work when it seemed "safe." They remained fully invested throughout thick and thin.

Could the Prudent Speculator results be repeated today?

The relative returns (Prudent Speculator compared with the Wilshire 5000) probably could be repeated given the enduring style of the Prudent Speculator newsletter. But the period 1982-2000 was arguably the best stock market any of us will ever see again. It is doubtful that the combination of a huge generation of baby boomers plus game changing technology will present in our lifetimes. So what can we do?

Compounding is universal and eternal. It's in nature as cell mitosis, in the network effect of companies like Facebook and Google and it's in our portfolios – if we just stay invested without panic selling. We may not turn $1,000 into a huge number like $17 million, but we can most likely do a lot better than we would have done had we not invested with discipline. You can be sure that the relatively concise portfolio Prudent Speculator runs did not even match the market at times, but in the long run it sprinted ahead of it.

The Takeaway

To do well over long periods of time, we don't even need the absolute best strategy or any inside information. We need only to have a well thought out investment process, a savings plan and the willingness to stick to them through thick and thin. Simple discipline is sufficient to be a successful investor. .

Thanks to Mark Hulbert, editor of the *Hulbert Digest*, writing in Barrons.com on February 22, 2017 under the article, "The Little Newsletter That Crushed The Market."

Thanks for reading today. We really enjoy our work with you.

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