

Take stock from an 'Intelligent Investor'

When I was about seven years old, I remember that a family friend told me he never bought any stock without having a clearly defined benchmark for when he planned to sell. That benchmark could be when the stock price doubled, or when the price popped out of the range of fair value. But the point was that he had a pre-determined discipline for when to sell - not just for when to buy. Although not yet interested in stocks, I was certainly impressed when this smart investor opened his wallet. It was always filled with \$100 bills - *in the 1950's*. That got my attention.

Recalling this gentleman's financial acumen, I believe that he intuitively understood the paradigm professor Jeremy Siegel recently coined: "the growth trap." The growth trap occurs when investors pay too high a price for a stock they are excited about. Following the financial market downturn at the beginning of this century, dividends became *hot*. In The Future For Investors, Dr. Siegel instructs us that dividends tell but part of the story.

Let's say, for instance, that a stock was expected to pay a \$3 per share dividend. An investor who owned 20,000 shares was pretty smug as she bragged about her investment earnings. What she ignored was the *price* she had paid per share of stock to achieve these dividends. Each share had been purchased for \$20 - on the surface a reasonable price. Now consider another investor who was equally happy with \$3 per share of dividend earnings, but had been willing to pay only \$10 per share to buy her stock of choice. Dr. Siegel's research indicates that paying less per share for our dividends matters.

I am reminded of the perks for purchasing a book of car wash tickets. A local company proudly offers a free wash - for buying a book of 10 washes. Or, for the purchase of a book of 5 washes. I always take the book of five. That way, I get *two* free washes - instead of only one - for every 10 washes I actually pay for! More perks for less cash upfront works every time.

Third quarter statements are on their way. When investors receive them, the game of second guessing the mutual funds they chose in their retirement plans often ramps up. Despite the increases many will enjoy, the temptation to wish

they had chosen differently and gained even more, can be compelling. What impact may this emotion have? It frequently leads to investors making *much less money* than the funds in which they are invested.

How could this be? Research indicates that this phenomenon results, quite simply, from investors *constantly switching* funds at the wrong time. Experts have dubbed this behavior, chasing performance. As one financial journalist sarcastically quipped, "If investors want to see the biggest threat to their portfolios, all they need to do is look in the mirror."

I leave you with the thoughts of Benjamin Graham, considered by many to be the father of investing. As long ago as 1973, he had already clearly identified the behavior pattern of chasing performance in his book, The Intelligent Investor:

"The speculative public is incorrigible. It will buy anything at any price, if there seems to be some 'action' in progress. It will fall for any company identified with "franchising," computers, electronics, science, technology, or what have you when the particular fashion is raging. Our readers, sensible investors all, are of course above such foolishness."

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