# COMPASS WATCH

**DAVID M. CARLSON** | **LEIGH E. NIEBUHR** | **RONALD J. POOLE** | **MARK S. HALVERSON** | **CHARLES M. KELLEY** | **JAY M. JACKLEY**

*A quarterly newsletter of Compass Capital Management, Inc.* *Volume 21, Number 3: Fall 2009*

## IS "BUY AND HOLD" REALLY DEAD?

The **57%** decline in the stock market (S&P 500) from October 9, 2007 to March 9, 2009 as well as the collapse of some of America's largest companies during this time caused many investors to conclude that the "buy and hold" approach to investing is dead. If by this they mean "buy and forget", that approach should be dead. However, if by "buy and hold" they mean "long-term" investing, this approach is not only alive and well, but remains one of the few proven avenues to substantial wealth.

The Forbes 400* list of the richest people in America includes many who made their fortunes investing long-term in enterprises they founded many years ago. All of the top ten members on this list - - people like Bill Gates (Microsoft), Warren Buffett (Berkshire Hathaway) and the Waltons (Wal Mart) - - became the wealthiest Americans through such long-term investing. Buffett even refers to the companies in his Berkshire portfolio as his "permanent holdings".

Estate planning attorneys have also noted that many of the most financially successful clients they advise also made their fortunes through long-term investing in enterprises with which they were associated. Of course, a great number, perhaps most, ventures fail, so such concentration in one investment isn't advisable when managing a client portfolio: that's what portfolio means - - a combination of investments for diversification. Nevertheless, unless one wins the lottery, a long-term perspective seems to be necessary generally for significant wealth creation.

The opposite of long-term investing is "short-term speculation" – an approach that sells a lot of newsletters and TV time, but doesn't work well for most investors. Such an approach tends to encourage emotional, reactive investing, leading to buying high and selling low, rather than the other way around. Short-term speculators may have been inclined to sell their stock portfolios after the S&P 500 had fallen 57% by March 9, 2009. A long-term investor like Buffett, however, saw this as a buying opportunity, just before the S&P rose over 60% in the following seven months.

At Compass, we are definitely long-term investors. (We have held one of the stocks in our portfolio for over twenty years!). This perspective helps avoid the emotional roller coaster and enhances the tax efficiency of our portfolios (since long-term capital gains are currently taxed at less than half the Federal rate on short-term gains for top bracket investors). Most important, however, is that we want to think and act like (and reflect the results of) the wealthiest Americans, who built their fortunes by understanding, investing in and managing some of the finest companies in the world - - over a long period of time. We are by no means passive. These great portfolio companies need to be trimmed when their prices get too high and added to when too low. And we do sell the name if it is badly overvalued, if there has been a significant negative change in the company, or if we have simply found a better candidate at a more reasonable price.

So no, at Compass we are not "buy and hold" investors, nor do we respect "buy and forget", which is much worse. We are diligent, long-term investors. And, in a sense, we can improve on the Forbes billionaires. While they may be dependent primarily on one great company - - their own, our clients benefit from a portfolio of twenty-five great companies. That's more than diversification. That's reassuring!

*Forbes. "The Richest People in America" October 19, 2009.

*For more information regarding our company, disciplines and results, please call, write, e-mail or visit our website:*
www.compasscap.com

*Suite 400 Baker Building* *706 Second Avenue South* *Minneapolis, MN 55402*
*www.compasscap.com* *(612) 338-4051*