A Timeless Reminder

Keep Your Focus on Growth

by Kenneth S. Janke, Sr.

For years I have kept a file of reports and thoughts about the stock market that I felt were timeless. They serve as good reminders to stay the course during both bull and bear markets, and I try to review them fairly often. My favorites come from people like David Babson, David Wendell and Brad Perry. All had long and successful careers as securities analysts, with their firms and clients prospering as well.

Reviewing David Wendell's comments recently has been especially helpful in the current cycle that officially became a bear market in September 2000. He pointed out that "just as you need blueprints to construct a house, and a business plan to build a business, having a plan for your portfolio and staying with it through thick and thin is crucial for long-term success."

It starts with long-term planning and setting goals. It may be funding a college education for a child, making retirement more comfortable, or making possible a number of hopes and dreams rather than just one *(see "Financial Planner," page 31)*. That's one reason you should realize that your plan will probably be different from everyone else's. It will be unique.

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> **— David Wendell**

Once your goals have been determined, it's time to determine how to go about achieving them. What should the mix be in the portfolio to reach them? Ideally, everyone should become an investor and have a plan at an early age, but that simply doesn't happen. Many of us wait longer than we should. Age is one of the factors in deciding whether fixed-income securities should become part of the portfolio, along with equities. Fixed-income securities reduce prospects for growth and appreciation but typically increase income.

Income becomes important in retirement years, of course, but investors should keep in mind that the best way to achieve growing income and keep ahead of inflation, too, is to own stock in companies that continue to grow. Over the long term, the price of a stock will be determined by earnings per share. Valuations are important. If an investment program is started at a young enough age, dividend income can take care of itself as companies grow, allowing for increased dividends through the years.

Investors should be realistic. Unfortunately, media reports highlight daily price fluctuations and that results in too many people having a short-term perspective to investing — i.e., today was a bad day to invest, yesterday was better. I think that notion was part of what led to the period during the late 1990s when speculation took over instead of sensible investing — i.e., today was a good day to invest, and so was yesterday, and the day before that, etc.

Other factors contributing to the problem included some bad advice and rumors about what the price of a stock might do over the next week. Becoming part of this momentum seemed to be more important than fundamental investing. The bubble burst, of course. Those who continued to seek growth companies at reasonable prices through all this were hurt less in the bear market than people who bought stocks because they were going up.

Those who try to follow the philosophy of buying low and selling high eventually find it is not that simple. Any bear market that comes along can easily wipe out any profits that approach brings. Keep in mind that building a portfolio is a process that can take many years. An investor holding sound companies that continue to grow should not be selling stocks during a bear market. It's really an opportunity to buy more and stick to the original plan. Thanks to the late David Wendell for reminding us of that. BI

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