



July/August 2001

In Praise of Sleep

In the dog days of summer, we thought it would be fun to vary from our usual lecture about rationality in investing. On the reverse page is a mystery chart, starting at the beginning of 1995 and ending in mid-August, 2001. Before reading the rest of this page, guess which stock or index we are showing. While we don't want to give it away by showing the price scale on the chart, we will tell you that the price went up more than 160 percent in the period shown.

In our roller coaster, stomach-churning world with the Nasdaq Composite falling more than 68 percent, this seems like a pretty placid holding, doesn't it? One of the problems of seeking high investment returns is the accompanying high risk. Investors who thought they were steely-nerved gamblers decide (after consuming cases of Roloids) that they can't take it and give up. But our chart seems to show an investment that would be easy to deal with – sure, there are the usual blips up and down, but nothing that looks too scary.

“Early risers are indignant in the morning and stupid in the afternoon” – Mark Twain

Our mystery chart, however, *is* the Nasdaq Composite, the very same index that led to that leap in Roloids sales. We just deleted the period between July 28, 1998 and

April 16, 2001. In other words, Rip Van Winkle invests in the Nasdaq Composite in the beginning of 1995 and enjoys a rise from about 750 to just over 1,900 on the index in the summer of 1998. He then naps and awakens this year on the day tax returns were due, checks his portfolio in *The Wall Street Journal* and finds that the price is almost exactly the same as when he fell asleep. The index subsequently shows the same type of steady gain he delighted in before his nap. Rip wonders why other investors seem to have such a hard time making money.

Of course, Rip is unaware that the index vaulted to over 5,100 in March 2000 and subsequently fell to just over 1,600 a couple weeks before he awoke -- the chart for the full period looks like the Matterhorn in the middle of a gentle upward slope. But the prices were the same for us all – it's just a difference in perception. The first trick was to be fully invested back in early 1995, when many investors had the bulk of their portfolio in money funds. The next trick was to not get too greedy when things went well, as many of those same investors chased the Nasdaq stocks while Rip slept. While we take a back seat to nobody in our obsession with the stock market, it is entirely possible to think too hard about this stuff – a good message for our summer newsletter. If you would like advice from people who realize that the ultimate goal of an investment program should be serenity, not excitement, give us a call.