



Quarterly Commentary – April 1, 2010

Most of what we hear today about investing in stocks is simply irrelevant!

We recently attended a meeting during which a panel of securities industry professionals was asked to give their opinions to a large audience on what was going to happen in the economy and in the stock and bond markets over the next several months. I sat there, scratching my head, asking myself why anyone in the audience (most were over 50 years old) should have cared? Should investing be about the next several months, or should it be about the long term? It reminded me of a quote from Albert Einstein, which read:

“I always found that my greatest challenge was to determine the right questions to ask. If I could ask the right questions, I could almost always discover the right answers.”

The moderator was asking—and the panel was answering—the wrong questions, because the answers had little or no bearing on the audience’s prospects of becoming wealthy. Different people’s guesses about what the market and the economy might do in the near term is a waste of time and potentially detrimental to wealth creation. The right question is, “What strategies have the most successful investors used to build and preserve their fortunes, and what special skills are necessary?” Fortunately, (1) there is a clear answer to this question, (2) the best investment strategy is remarkably straightforward, and (3) it is within the grasp of individual investors to implement this strategy, although most people should not try it alone.¹

One investment strategy stands above all else, and individual investors would be well advised to capitalize on it. A review of the long-term investment results of Benjamin Graham, Warren Buffett, Charlie Munger, Walter Schloss, John Templeton, Bill Ruane and other successful investors should be enough to convince one of the virtues of this approach over others. This approach advocates buying shares of enduring businesses when they can be purchased at discount prices, and exercising patience to allow the underlying value to be reflected in a higher stock price. These principles are simple, yet most people lack the key ingredient to follow these principles to success: The ability and willingness to ignore that which is unanswerable — i.e., what is going to happen in the short run². As Benjamin Graham wrote in the classic, *Intelligent Investor*:

“People don’t need extraordinary insight or intelligence. What they need most is the character to adopt simple rules and stick to them.”

¹ A Dalbar, Inc. study titled *Quantitative Analysis of Investor Behavior* (March 2009) demonstrated that individual stock mutual fund investors have dramatically underperformed the stock market (average annual return of only 1.87% compared to the overall market’s annual return of 8.35%) because they bought at market highs and sold at market lows.

² Alan Greenspan and Ben Bernanke have been notorious in not predicting accurately what interest rates or the economy would do over the next 12 months. If people in their position can’t do it, who can?



Patience pays, as is illustrated in this example. One hundred shares of Procter & Gamble could have been purchased in 1990 for \$7,050. Adjusted for splits, this investment would have grown to 800 shares valued at \$50,950, an annualized return of 10.1%. Dividends over this time would have provided an additional \$27,000, giving the patient investor a total return of eleven times his or her initial investment, or an annualized return of 12.6%.

What did this accumulation of wealth, created through sound and patient investing, have to do with such matters as periodic changes in the economy, which political party was in office, which governmental policies were enacted, how interest rates or the economy fluctuated, or what the newspapers were periodically reporting in the way of good or bad news? While most investors find it irresistible to react to such influences, they had virtually nothing to do with wealth creation. These influences are irrelevant at best, and damaging at worst.

The virtue of patience has been understood by successful investors of all stripes, including Jesse Livermore, as quoted by Edwin LeFevre:

“It was never my thinking that made the big money. It was always my sitting. Men who can both be right and sit tight are uncommon. I found it one of the hardest things to learn. But it is only after a stock operator has firmly grasped this that he can make big money.”

Through my 43 years in this business, the most important lessons I have learned about becoming wealthy through stock ownership are to select the right ones and to own them for the long term. I wish others would learn to have as much good sense as Warren Buffett, and spend time thinking about matters that will actually help them be successful. Warren Buffett has always chosen to ignore those things that concern most investors. His success has hinged on clear thinking, careful research, a strict affinity for enduring, world-leading businesses that build shareholder wealth, and patience.

As always, we have included with this commentary your quarterly performance figures, management fee invoice(s), and a copy of your portfolio allocation as of 3/31/10. We have included our firm’s privacy statement, which discloses how we manage the personal information that is entrusted to us. Also, we are required to offer you a copy of our latest Form ADV, which is our registration statement with the SEC and state regulators. If you would like to receive a copy, please contact us at jennifer@golubgroup.com or at (866)604-6582 and we would be happy to send you a copy.

Best regards,

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