The Price of Impatience

Lethargy, bordering on sloth should remain the cornerstone of an investment style. – Warren Buffett

What is one of the most important characteristics of great investors? Patience. Investors who don't have this characteristic are almost certainly doomed to make serious investing mistakes. In this article I will address two ideas – how patience will reward the investor and the folly of always being fully invested.

Patience

Let's examine the current environment for common stocks. The vast majority of the common stocks I have examined in the last six months are selling for very optimistic prices given that interest rates are on the rise and the burgeoning trade & budget deficit the country is experiencing.

This situation will test the will of all but the most serious focus investors since a major part of focus investing hinges on the idea that equities should only be purchased when selling for less than their intrinsic value. Additionally focus investors also prefer to invest in great companies that meet the selling below intrinsic value test. These two requirements mean that focus investors are almost certainly going to experience extended time periods on occasion where investment pickings are slim to nonexistent. The key is not to take action just to relieve boredom or to appear busy – this behavior will almost certainly lead to a compromise of your investment principles.

I recognize that this can be a boring and frustrating time period. However I suggest that it isn't necessarily such a bad thing since focus investor can then spend time digging for companies that meet the great business requirement and then studying them hard enough to add those companies to their circle of competence and put together an estimate of their intrinsic value.

Focus investors would do well do remember this relevant Warren Buffett quote:

> "Investing is like batting a baseball except that you get as many pitches as you want and you never have to swing. Wait for the 'home run ball' before investing."

If I have depressed you in this section take heart as the action of the market is starting to move valuation levels in the right direction, down!

Always 100% Invested

Many mutual fund managers believe that they have to be fully invested in the market at all times but what are the exceptional money managers doing in their investment portfolios and how does their cash levels relate to my views of the general level of stock market prices?

An examination of the cash holdings of the exceptional money managers that I respect seems to agree with my viewpoint that equities have become overpriced across the board. The folks at Pacific Financial Research who manage the Clipper Fund have approximately 26% of their total assets in cash that is currently earning minuscule returns. The Longleaf Partners Fund also has approximately 26% of their assets in cash and has even taken the unusual (but the right one) step of closing their funds to new investors. By taking this action they are essentially telling their investors that they can't find enough investment opportunities to invest new cash inflows.

These two funds are not alone in keeping lots of cash on hand. Other investors are also holding uncommonly high levels of cash, namely Warren Buffett of Berkshire Hathaway, Seth Klarman of Baupost, and the folks of Ruane, Cunniff & Co.

These fund managers buck the trend of most money managers whom believe that any new money that enters their fund must be invested in equities immediately usually based on the model portfolio concept. I believe his behavior is both dangerous and ridiculous. I sincerely believe they are certainly doing a disservice to their clients by practicing this behavior. The problem is that this behavior disregards any concern with the valuation of the company in question. If new cash flows into an organization the fund manager should only invest that money if there are suitable investment opportunities available and if these aren't available they should hold onto the cash until an opportunity presents itself.

This is an especially important concept for focus investors. Since focus investors believe in only investing a meaningful amount in their best investment selections they should not be afraid to hold onto cash when good opportunities aren't available.

Conclusion

Successful investors in the stock market, in my opinion, need to possess the patience to wait for the perfect pitches and they need to be able to think for themselves. Don't be pressed into action because you wish to appear productive, as this behavior will almost certainly lead to investment miscues. Keep your spirits up, your patience and independent thinking will be rewarded in the long-term!