The Definition of Long-Term Investing - Transcript

Tom Mullooly: In episode 111 of the Mullooly Asset Management Show, we're going to address, what's the definition of long-term investing?

Welcome to the Mullooly Asset Show. I'm your host, Tom Mullooly and this is episode number 111. Thanks for tuning in.

Warren Buffet, he's just a great source for quotes. He comes up with some of these great things. And he talked about ... Imagine if the stock market traded once, only once every five years. There's actually, as we're recording this, there's a good conversation going on on Twitter between Jason Zweig, who writes really well. He writes for the Wall Street Journal, and Cliff Asness, a pretty well-known money manager in our industry talking about this very thing. The actual quote from Warren Buffet was, "I buy on the assumption that they could close the market the next day and not reopen it for five years." That was his actual quote, so think about that for a second.

What if you invested today, and then the market then closes for five years? Five years, it's a long time. So, a couple of things come to my mind. First, any money that you need in the next year or so shouldn't be in the market. That's always true. That shouldn't be money in the market. Yet, people ask us all the time, "I'm going to be buying a house in a year, or year and a half. What kind of investment should we put it in to make a lot of money?" It doesn't work that way. There's just too much risk and too much volatility in the short term to say clearly, "You should do this." Save the money.

The second thing that comes to mind is, there would be nothing to write about. There would nothing to watch. There would be nothing to worry about. There'd be nothing to talk about on a day to day basis. It wouldn't matter what's happening with interest rates. It wouldn't matter what President Trump is tweeting. It wouldn't matter what's being talked about on the news, because you've locked this money away for five years.

The third point that comes to mind is, you would know with certainty, after five years, that you made or lost X percent of money. And all you would know is that number, it's not like ... We get calls from people who say, "Hey, we're up 20%. Let's lock in some profits." Or, "Hey, we're down a certain amount in this account. Let's cut our losses and go to cash." It just doesn't work that way. You'd have a completely different outlook, wouldn't you, if the markets only opened once every five years. So, again, Cliff Asness, well known money manager, Jason Zweig from the Wall Street Journal, two guys you really ought to follow on Twitter, in addition to Mullooly Asset Management and all the team here.

Cliff actually, in a joking way, offers to clients periodically, he says, "Hey, we'll manage money with the following terms, we'll lock up your money for 10 years and we'll give you smoothed out returns." So you know, after 10 years you made a certain amount of money, never gets a taker, never gets a taker for it. People just want to know. They want to tinker with their accounts. They want to mess around. They want to think that they're really smart and they’re smarter than the market. Folks, it just doesn't work that way.

So take a lesson from Warren Buffet, when you think about investing think about putting that money away for a long period of time. Thanks for watching episode 111. We'll see you next time.