LAWSON KROEKER
INVESTMENT MANAGEMENT

As We See It

Buy Low, Sell High

With the market down a bit so far this year, the "If only I had" wishful thinking is getting another workout.

Timing the market is tempting. Being in and out at just the right time would produce spectacular numbers. For example, for an article in the September 16, 1991, *Forbes*, Gary Schilling ran a simulation of the Dow Jones Industrial Index (all dividends reinvested, no taxes, no commissions, etc.) for the period January 1945, to June 1991, a 45 1/2 year period. In the study he developed several timing scenarios. Simulations were run avoiding or shorting either the 50 weakest or 50 strongest months of the period. Fifty months would be about 9% of the 45 1/2 years. The results were quite interesting.

Being out of the market for the fifty weakest months, and fully invested for all the remaining months show $1.00 becoming $3,185 a 19.9% average annual return. It is not easy to do. Some of the fifty bad months could have been consecutive so the switches from in the market to out of the market and back may have numbered fewer than 50. Still being right twice times something a bit less than 50 in a row, is a whole lot of right decisions or guesses, in fact a spectacular string of successes.

Two other, not so spectacular, points in the Schilling simulation are worth noting and may be more significant for the real world. First, investors must be there when the up moves come. The study showed that being out of the market (actually the Dow Jones Index) for the 50 best months reduced the returns by a significant amount. The $1.00 became only $4.70, a 4.2% average annual return. And remember this is only 50 out of 546 months.

The second point, by just staying in the market, that is the Dow Jones Index, $1.00 grew to $114.50 for an 11.4% average annual return. That all by itself is not a bad result.

Timing is not easy. Being wrong has penalties. Slow but steady worked well.

In contrast to the timers, the value-oriented investors eschew timing and work diligently to buy when they find value (read cheap) and sell when what they hold becomes fully or over valued (read dear). In a sense, they end up being timers. For when the market as a whole is down, the value buyer is likely to feel like a kid with a dollar in a candy shop. In periods of high markets the value investors will bemoan the lack of securities to buy. The difference is that the timer tries to predict or guess, with all its complexities, the market, and the investor looks at a specific investment and measures it against his standards of value.

Note: Remember all the above simulations were without considering taxes or commissions.

March, 1994

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