LAWSON KROEKER
INVESTMENT MANAGEMENT

As We See It

Time Horizons

Time horizon refers to the length of time an investment is held before it is sold. Time horizons range from seconds—in the case of day traders—to decades for buy-and-hold investors. There is no *right* time frame—it depends on the investor's objectives. Historically, when investing in common stocks it was a prerequisite to have a long-term horizon as this was an investment in a business. However, this school of thought has *evolved* somewhat into a short-term game of timing based on the most current information available.

An analogy from the past (which is just as appropriate today) has compared investment time horizons to teaching a youngster to drive a car. Novices have a tendency to zigzag down the road, over correcting each time they discover the car has moved too far to the right or left. The reason they zigzag is because their focus is just ahead of the hood of the car. The most successful way to counter zigzagging is for the driver to shift his focus further down the road. Once forward focus is learned, it's amazing how easy it is to drive straight.

This tendency to over correct is very prevalent in the investment world today. Time horizons have been shortened to the extent investors are looking *just ahead of the hood*. By focusing on the short term, investors are weaving down the road reacting to current events—such as quarterly earnings—and missing the big picture that can be seen further ahead. As we all know, short-term performance has no bearing on whether a stock is a good long-term investment.

It's not just novice investors who tend to over correct. Experienced investors are also guilty. Those who monitor short-term performance over correct their portfolios by selling what has not been successful and buying what has. This tactic has been referred to as *investing in the rear view mirror*. Failure to switch one's focus forward can lead to disastrous results in investing. However, when stock prices react violently to changes in short-term expectations, potential opportunity can be created for those investors whose focus is further down the road.

By lengthening their time horizon, investors can concentrate on those factors that impact the long-term business of the company: sustained competitive advantage, strength of the balance sheet, reinvestment of capital, prospects for continued growth, and quality of management. Short-term items such as quarterly earnings, monthly sales, economic statistics, chart patterns, etc. become irrelevant.

Having a long-term horizon allows an investor not to be concerned if the stock price drops in the near term. If a stock was originally purchased having a sufficient margin of safety with fundamentals that remain intact and the company is growing its intrinsic value, eventually the market price will reflect the value of the company. Price declines can be buying opportunities.

Long-term horizons are considered by many to be a defensive tactic, but we would argue that a long horizon is a terrific offensive weapon that can be utilized to one's advantage in a volatile uncertain market.

July 2006

450 Regency Parkway, Suite 410 | Omaha, Nebraska 68114-3701 | *tel* 402.392.2606 | *fax* 402.392.2597 | www.lawsonkroeker.com