

Differentiating investing from speculating in the stock market



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ther the fundamental performances of a software firm based in California or somewhere in Seoul, nor is a copper mine located in Peru or Zambia – these are irrelevant in this case. What matters most to these stockbrokers and dealers is that the share or bonds prices move temporarily in what they perceive to be the right direction.

Classic investors, however, buy shares in only a handful of companies, which they know as thoroughly, after a careful analysis. The opinion of the market reflected in the temporary ups and downs means nothing to them, their commitment is long-term. To avoid transaction costs, they buy and sell as infrequently as possible. Warren Buffet and his long-term investment partner Charlie Munger don't even seek out new investment opportunities to come to them. From the horse's mouth: "Charlie and I just sit around and wait for the phone to ring." So says

Stockbrokers and securities dealers -- collars unbuttoned, sleeves rolled up, yelling into several telephones at once, gesticulating as though their lives were on the line. The air crackles. Every now and again one of them slams a receiver down onto the table like he wants to break it. Then the traders start bawling at each other over their Bloomberg terminals, on which stock prices flash like carnival lights. You will be fair if you agreed with me -- this is how the media depicts the world of finance, and the work of stock markets, relaying images from either the stock-market floor/gallery of a major stock markets, or the trading area of a major investment bank.

Let's change the scene – here there is a dull office on the fourteenth floor of an unassuming high-rise in a sleepy Omaha, Nebraska, the most negligible state in the US where there is no Bloomberg terminals, no computers, and no emails, no nothing as impressive. Just an old-fashioned desk and a telephone, there he sits, day after day as he has done for about fifty years now: Warren Buffett, the most successful investor of all time.

The contrast couldn't be starker, on the one hand: hyperactive, sweat drenched, testosterone-laden stockbrokers, on the other a quiet silver haired Uncle Warren. Once you have grasped the difference between speculating and investing you will start seeing parallels everywhere and you will have a good mental tool to hand.

So, what exactly is the difference? The stockbrokers and dealers trying to make a profit through frenetically buying and selling shares and bonds. What's behind the shares – it is nei-

Uncle Warren.

Who is more successful – a speculator or an investor? I would be quick to admit that there are winners and losers on both sides, but the giants among the winners are to be found only on the side of the investors. Why is that? Because of the one major difference: investors take advantage of long time-spans; speculators don't. Our brains, human beings, love short-term, spasmodic developments. We react exaggeratedly to highs and lows, to rapid changes and jarring news -- but continuous changes that we barely notice. As a result, we systematically overemphasize doing above not-doing, zeal above deliberation, and action above waiting.

Let's consider these -- what are the most purchased books of all time? Not the ones on the current best seller lists or stacked highest on bookshop tables at the bookstores or airports, I mean the ones that have remained continuously in print for decades or even hundreds of years-- the Bible, Mao's *Little Red Kook*, the



Koran, the *Communist Manifesto*, the *Lord of Rings*, the *Little Prince*. These are known as "longsellers", and no major publisher can live without them. The same goes for Broadway shows, tourists' attractions, songs and many other products. And what is one of the most successful cars of all time? The Toyota Corolla, continuously available as new since 1966 now in its eleventh generation. It wasn't the first years' turnover that made the Corolla a superstar but the span of time over

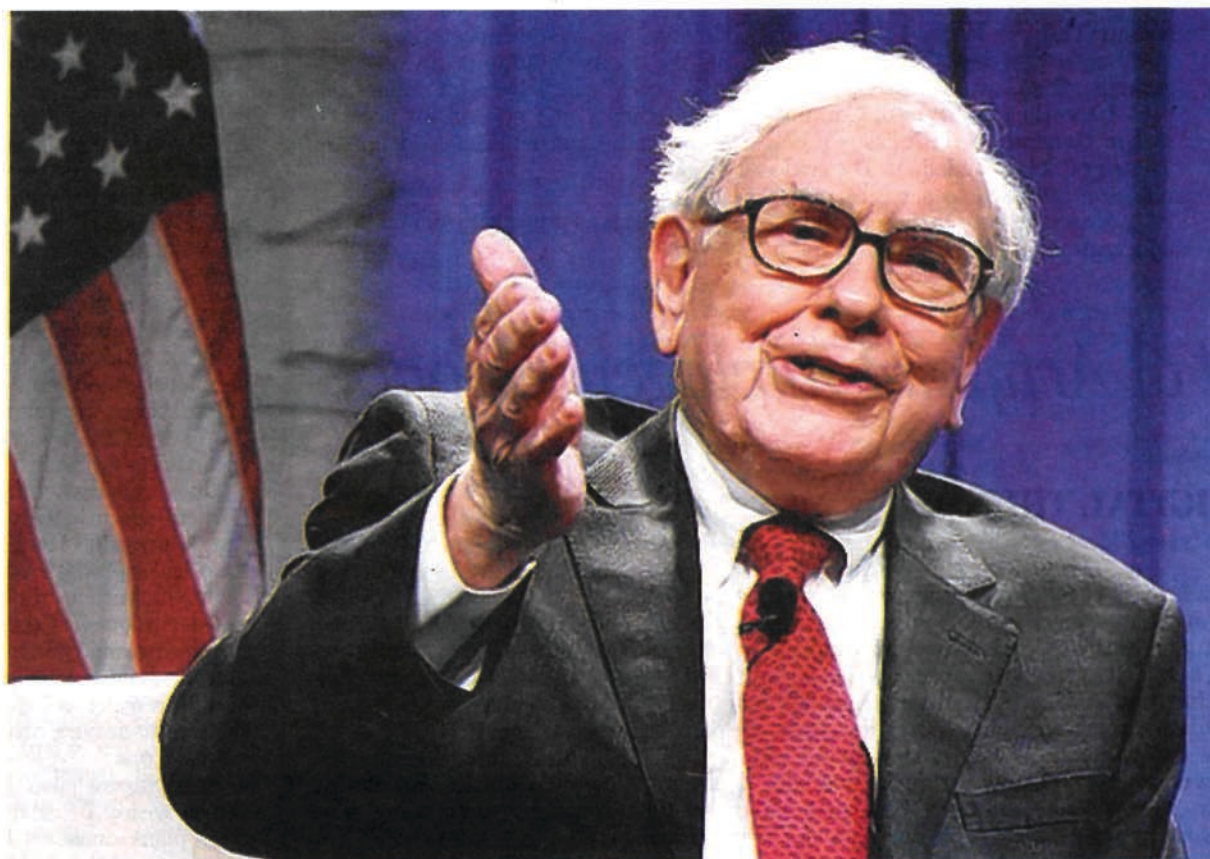
which it has been sold.

Such long-term successes often have inconspicuous ingredients that function like baking powder, producing incremental progress that builds up over a long period of time. Take the example of investment; if you invest Sh10 million at ten percent return, after a year you will be Sh1 million richer. Piece of cake, right. But if you keep reinvesting these modest profits, after twenty years you will have seen an impressive growth of more than Sh40 million that you couldn't have imagined when you started with your humble Sh10 million. Your capital will accrue not linearly but exponentially, because our brains have no instinct for duration, they also have no feel for exponential growth.

This, then, my readers, is the secret of persistence and of the difference between investors and speculators among us; long term successes are like making cakes with baking powder -- slow, boring, long-winded processes, but which lead to the best results. The same goes for many aspects of our lives. Just reflect, make a careful observation around you, and you will see.

In our current environment we are meant to be convinced or forced to understand and embrace the idea that in modern times, disruptions, constantly changes of careers and companies, etc is the way to remain competitive and happy. This may be right and wrong, why? Because sometimes a peaceful and predictable life is what you need and is actually more productive --and what this says is that sometimes a less busy work, more endurance and perseverance, tenacity and long term thinking could be highly valuable, as Charlie Munger says: "only a little bit wiser than the other guy, on average, for a long, long time".

This how you become a value-based investor and not the one stressed with the temporal ups and downs of stocks. After all you are not a speculator or a gambler or a dealer – you are an investor who looks into the future of yourself and your children, trying to lock into what is possible.



Mr Warren Buffet, one of the most successful investors in the world. PHOTO | FILE

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