Behaviors of Successful Long-Term Investors

By Dick Fabian

How do you approach investing? Do you believe success is based solely on being in the right stock or the right sector? Are you looking for what to buy this week in order to make you rich next month? Are you a trend follower, and you feel the most important thing to learn is how to avoid whipsaws?

Well, if this is what you're looking for, don't read any further. You see, long-term success is not based on finding the most optimal plan or knowing the best stocks or sectors.

Long-term success is based on having the proper mindset…the proper behaviors…the proper processes in place. For more than two decades, I have preached that I believe the investor is more important than the investment. Knowing what you will do, and more importantly what you won't do, is what I've focused on over my entire career. And over the years, I have come up with a list of time-tested behaviors that will increase the likelihood that you can become a successful long-term investor.

Have you noticed that I constantly refer to "long-term" success? You see, it's very easy through dumb luck or chance to hit a home run with a stock in the short-term with a small portion of your nest egg. It's like getting on a hot craps table in Vegas. I've always said the worst thing to happen to someone is to win the first time they go to Vegas. The same is true with investing in the market.

If your first stock pick makes money, you immediately believe it was based on your research, your knowledge, your ability to be a top-notch stock picker. I've been in this business for more than 30 years, and I've never met an individual investor who's made money on their own picking individual stocks <u>with their serious money</u> over the long term. Sure, people may be able to put their play money into some winners just like my friends can win playing craps or black jack every once in a while. But, over the long term, gamblers and stock pickers lose, and the casinos keep getting bigger in Vegas.

Before we go over the behaviors found in successful long-term investors, let's focus first on the behaviors that will almost guarantee losses in the market.

- **Lack of Discipline** – The one item that stands in the way of success for most people is ego (explained later on) and their lack of having a clearly defined plan AND sticking with it at all times. One of the questions asked of me at investment seminars during the years while I wrote my newsletter is this: "Dick, isn't there a significant impact on the overall market when your thousands of subscribers receive a sell signal?"

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My response to that question comes as quite a surprise to the audience. I answer, "Don't worry about it, because most of the subscribers do not sell when a sell signal is given. The reason is simple, their emotions, plus the predictions they are hearing from others, get in the way." *Knowing what to do and then actually doing it are two completely different things.*

- **Impatience** – We're all a part of the microwave generation. Remember when it would take 45 minutes to cook a Swanson chicken pot pie? Now, it takes 7 minutes. Today, many people want to put their nest egg in the microwave and achieve their growth goals instantaneously. It doesn't happen that way. You can't squeeze blood out of a turnip. Nor can you make money in a trendless range-bound market environment. Trading is about patience and objective decision-making, not action addiction.

- **No Objectivity** – We tend not to cut our losses quick enough because we fall in love with our holdings. If you still have Cisco, Intel, Lucent or an internet mutual fund in your portfolio from the highs in March of 2000, you know what I'm talking about. Most people are unable to disengage emotionally from the market.

I've always said you must constantly monitor your investments and that you should cover up the names of your stocks and mutual funds and view each holding objectively against your goal. Is that individual holding helping you achieve your goal? If the answer is yes…great…keep holding it. If the answer is no…dump it…and look for other available opportunities. Fall in love with your spouse, your kids, your dog. Don't fall in love with your investments.

- **Greed** – Are you trying to pick the tops and bottoms? Do you strive to be in the "best" performing stock or fund? If you answered yes to either of these questions, I'm sorry to tell you this: You are greed-focused and you will never be a successful long-term investor. And probably worse off, you will continually be striving for the unattainable.

- **Ego** – When it comes to investing, everyone likes to win. And it's very natural to feel good about yourself when you've done your research…you've implemented your clearly defined plan…and at the end of the trade your portfolio is rewarded with a profit. Your ego then takes control. This is all well and good when we're making money. However, when there are losing periods (every plan even buy and hold has losing periods), ego is diminished, and this is the true damage done when the ego gets involved in the trading process. While the successful long-term investor, who is able to keep their ego out of the investing process, wants their trades to work out, the ego-involved investor *needs* them to be profitable.

All of the above traits are all harmful to long-term investors. Avoiding these pitfalls will definitely increase the likelihood that you and your family can achieve long-term financial freedom.

Now let's turn to the behaviors of successful investors. I believe there are a handful of behaviors that are keys to long-term success.

► **Follow a Highly Disciplined Investment Approach –** Some time ago, Robert Prector and I were featured speakers at an investment conference in Los Angeles. Bob is the highly respected editor of the *Elliott Wave Theorist* financial newsletter. At this conference, he made some comments I want to share with you now. In discussing how to be a successful investor, he said, "You must have a specific and clearly defined plan to follow, and you must have the discipline to stick with that plan. It must be a plan you have thought through in its entirety, so that if someone asked you how you made your investment decisions, you could explain it in detail. And if asked again in six months, the answer will be exactly the same." Heed Bob's advice. I have always said any investment plan you follow must be easy to understand and simple to implement.

► **Have Confidence in Your Investment Plan in All Market Environments –** If you've done the proper back-testing or research, you know most plans don't work all the time. With this in mind, it's important to understand when it's easy to make money with your plan, but also when it's difficult. And it's important to know before implementing any plan when it's going to be difficult.

► **Stay Focused on the Long Term –** Let's start with what I'm not saying. I'm not saying what most planner, advisors or brokers say: "Don't worry, you're in it for the long term." What I am saying is to understand you are going to have bumps along the way to your long term goals.

Bobby Knight, the highly successful college basketball coach, would go into classrooms at Indiana University and lecture to the new freshman about the fact they're attending college with a goal of graduating with a degree. He would tell them, "There will be classes you want to take, and classes you have to take. It's the same in life."

It's also the same with investing. Not every buy signal is going to be a winner. Not every fund you purchase will go up. Don't allow these short-term obstacles to take you off your long term path to achieving financial freedom for you and your family.

► **Allow the Power of Compounding to Work for You –** We are convinced that compounding is the key that opens the door to wealth for everyone. Simply put, compounding is growth on growth.

► **Have a Clearly Defined Exit Strategy with 100% of Your Nest Egg –** Before you buy anything (except for your house), ask yourself the following question: "When am I going to sell?" If you cannot answer this simple question…DON'T BUY IT! The time to think most clearly about why and when to sell is before getting in. No matter what investment plan you're following, the most important thing is preservation of principal. Having a clearly defined exit strategy not only gives you the ability to preserve principal, it can also help in redeploying your nest egg to other opportunities.

► **Become Comfortable Going Short –** In all honesty, this will probably be the most difficult behavior for most people. However, if you take a look at a chart of the Dow Jones Industrial Average from 1966 to 1982, you see a 16 year period where the index was completely flat. However, there were 6 Bull markets with an average gain of 33.9% and 5 Bear markets with an average loss of 27.6%. With the availability of Bear market funds at both ProFunds and Rydex, these Bear market declines can now turn into profitable ventures…provided you are comfortable going short.

I have said that becoming a successful long-term investor is **SIMPLE**…but it ain't **EASY**. It's **SIMPLE** to know you need to stick with the plan unemotionally through easy and difficult times. It's **SIMPLE** to have a long-term focus. It's **SIMPLE** to understand mathematically the power of compounding. It's **SIMPLE** to understand the benefit of having a clearly defined sell discipline. And it's **SIMPLE** to look at a chart in hindsight and see the potential opportunities available during declining markets with Bear market funds. For more than three decades I've said if you're able to follow the above behaviors…it's **SIMPLE** to become a successful long-term investor.

*But, I also know it ain't **EASY** to follow the above behaviors.*

Ask yourself: Are you truly going to be able to incorporate ALL these behaviors on your own with your family's nest egg?

If the answer is yes, you are a definite candidate to become your own investment advisor. I recommend that you take the next step in becoming your own investment advisor and review the material in my report entitled ***"Take Control of Your Financial Future."***

If you truly want to follow a simple and highly disciplined investment plan (a path my clients and I have followed for more than two decades)…If you truly want to take advantage of the impact that the power of compounding can have on both you and your family's lives…If you truly want to be able to do all of this on your own with 100% of your serious money, click the link below and see how the Fabian Trend Following Plan works.

If the answer is no, you may need a professional money manager looking over your family's nest egg. I recommend you find a manager that has all the above successful behaviors in place: A highly disciplined investment plan that's easy to understand; a clearly defined sell discipline to manage downside risk; and a money manager that has a plan in place to take advantage of opportunities available during market declines. To learn about the merits of placing your nest egg under the care of Fabian Financial Services, give our office a call toll free (866) 432-2426 and ask for Ed Foster, President.

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