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The Retirement & Investment Specialists

Get Back To Basics

By HEINRICH KRUGER

HERE we are again!!! Revisiting 1929, 1969, 1978, 1987, 1997, 1998, 2000, 2002, etc etc... and now 2008.

Will we ever learn? We always hear “this time it is different”, mostly from those that has not been there before. And the voices of reason to look at the similarities and learn from it get swamped by the panicking noisy herd instinct, jumping over the cliff to perceived ‘safety’ on the rocks far down below... where they all commit financial hara kiri in an attempt to save themselves from their own folly of over indulgence.

What happens every time before a crash? Exceptional market growth to which investors become used to and eventually addicted. Then follows exuberance and then over indulgence and eventually an orgy, let the good times roll!!! And to excuse and exonerate themselves the leaders will say “...but this time it is different”. But go and read Benjamin Graham’s Intelligent Investor or Warren Buffett’s story in The Making of an American Capitalist by Roger Lowenstein. It is never different because the basics are still the same.

Basics, what are basics? Do not live above your means. Save money and invest for the long term. Do not spend what you don’t have. Buy low and sell high. Look for value. Look for steady, growing income streams. Buy when the blood are in the streets. Do not put all your eggs in one basket.

And where do we find this basic knowledge? In the Bible, in the Koran, The Richest Man in Babylon as subscribed to by Charlie Munger, Buffett’s letters to his shareholders since 1954, The Intelligent Investor as mentioned above, etc, etc. It is not new, in many instances we can recall the advice given to us by parents, uncles, wise teachers. Even, as I wrote here before, Josef said to the Pharaoh, save in the fat years for the lean years, which they did and it led to the prosperity of Egypt and the Israelites.

Watch the Buffetts and others in your local community like him. They are not shy to share their wisdom. They tell you when they find it hard to find value to buy. They tell you when they have bought and even what.

Do people listen. No they don’t. That is why the majority who follows the herd will be consistently under financial pressure, and the minority who are contrarian and stick to the basics will climb the ladder to richness.

If we look at graphs of previous market crashes they disappear in the consistent rising trend of the market irrespective of the daily noise of fluctuation. If we look at time in the market and see that the

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dividends now are higher than the total purchase price ten years ago, and at Buffett's bottom line and his current share price, we realise that the basic truths work in practice.