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Guest Column: Temperament is the key to investment success

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SCOTT EELLS

Markets have been churning but not really going anywhere for a while. Convincing arguments can be made that both stocks and bonds are pricey. While this doesn't mean prices will go down in the near term it does mean returns in some future periods may be more modest. It's a frustrating environment that makes investors impatient and a great time to discuss a key characteristic needed to be successful at investing.

Most people assume a high intellect is needed to succeed in investing. While a certain level of intellect is helpful a much more important characteristic is temperament. At Berkshire Hathaway's 2005 Annual Meeting Warren Buffett said: "Financial success doesn't perfectly correlate with I.Q. ...but with temperament, which is hard to measure. You need some I.Q., but temperament is key."

He elaborated on this theme the following year when he stated: "There are no secrets in the investment business that only the priesthood knows. We do not go into temples and look at tablets that are only available to those who have passed earlier tests. It's all out there in black and white. It requires qualities of temperament way more than it requires qualities of intellect. What you do need is a certain temperament that enables you to think for yourself. Then you have to develop a framework. And then you have to look for opportunities that fit within that framework as you go through life." (as reported in Outstanding Investors Digest)

Besides thinking for yourself, having the right temperament means being greedy when others are fearful and being fearful when others are greedy. Easy to say hard to do. Numerous studies of all classes of investors prove most do just the opposite and suffer with poor performance.

Reducing volatility in the portfolio helps clients maintain their long-term investment discipline and makes it easier to take advantage of the cheaper valuations a correction creates (being greedy when others are fearful).

The stock market has recovered all its losses from the financial crisis and more and has been in rally mode for over six years. Amazingly the S&P 500 hasn't had a correction of 10 percent or more since 2011 an unusually long stretch of time. Not surprisingly good opportunities are rare. While it is impossible to know the exact timing this period of calm cannot last forever.

The absence of obvious bargains combined with an uncharted investment environment of chronic quantitative easing by the world's central banks, sluggish growth, and high global debt levels means having the proper temperament is critical. Now is not the time to take a lot of risk. At some point in the future stocks will offer double-digit growth. But until then patience is needed.

This is a guest column by James G. Tillar and Steve Wenstrup of TW Advisors in Centerville.

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