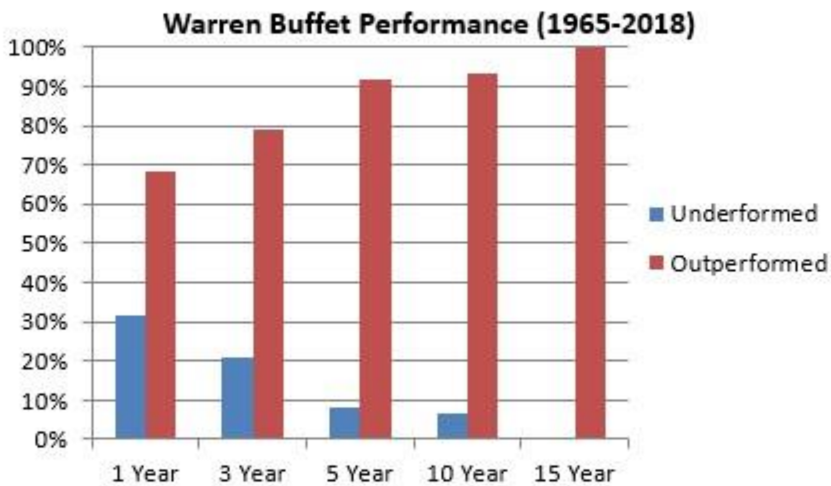
Even Warren Buffet Has a Bad Decade: Investing for the Long Run

by David Lieberman
Managing Partner, Portfolio Manager

It is well documented that the historical investment performance of retail investors is poor and most sources suggest that the group's average annual return is under 3%, a level of performance that is dramatically worse than bonds and remarkably below the average annual CPI since 1980. This happens because retail investors often panic at times when the market is selling off and then buy back in after the market has rebounded. Buying high and selling low doesn't lead to market level returns.   How long, then, is necessary to achieve long-run returns?

In 1975, Warren Buffet had underperformed the S&P 500 for 3 of the previous 4 years and cumulatively had underperformed during that period by over 55%, or almost 14% per year, a staggering level of underperformance for anyone, much less Warren Buffet. Buffet was not yet a household name at the time, so the performance wasn't newsworthy. Thirty years later in 2005, Warren Buffet again underperformed the S&P 500 for 3 consecutive years by a cumulative 23.6%, or almost 8% annually. Articles and news media circulated stories about the potential demise of the great Oracle of Omaha. But as it had previously, Warren Buffet's performance returned. Buffet's excellent track record is rooted in several factors, but his steadfast and almost religious patience is clearly a major one. Most firms don't have the ability to wait for a decade or more for strategies to unfold and returns to compound.

Warren Buffet's overall outstanding performance has been public since 1965 through the end of 2018.



However, this came with significant periods of underperformance. Indeed, in almost one third of 1-year periods, Warren Buffet underperformed. But he also underperformed over longer periods of time of 3, 5 and 10 years. In fact, he underperformed in 7% of all of his rolling 10 years as a professional investor. Of the 40 rolling 15-year periods since 1965, however, Buffet has never underperformed. This strongly suggests the amount of time needed to consider for an investment horizon.

Some may see fifteen years as a very long period of time. Retail investors, in particular, tend to be overly reactive, often tracking performance on a daily basis and sometimes even more frequently. Even private equity and venture capital firms typically seek to exit all investments within 5 to 7 years. But in a world where tweets and news come out at a blistering pace, news is reported 24/7, and stock quotes are as readily available as a glass of water, it is important to be reminded of the value of patience and not to overreact.

Since 2010 the market has now sold off by over 9% on 8 different occasions. **But the average length of those sell offs was only 1 month and the average recovery took only about 2 months.** Unfortunately, many investors sell during those declines and miss out on the rebounds. This can be especially costly. Over a 15-year period from 2004 through the end of 2018, the S&P 500 returned 7.7% annually. **If an investor missed only the 10 best performing days of that entire 15-year window, his or her average annual performance was only 2.96%, or 60% lower than the S&Ps performance!** Investing in a reactive manner by constantly following the news, tweets, and stock quotes in order to make rapid judgments about investing is not just unproductive, but quite counterproductive. Years of research has shown that market timing is ineffective and can severely degrade returns. The next time the market sells off, shut off the news, remove the stock app from your phone, and grab a cup of coffee. It may prove to be the most valuable cup you've ever had.

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