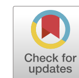
Editorial

The Myth of Buy and Hold Forever



Everyone talks about buy and hold forever during the last, blow-off phase of a multiyear bull market, the exact time you should be taking profits. I don't think there were many adherents to that strategy in 1931 or 1932. I personally know at least a dozen people who in 1999 thought they were "In like Flynn" (a reference to Errol Flynn, the dashing movie star of the 1930s and 40s) who thought they had it made, planning how much time they would be spending on the beach, yet 2 or 3 (or more) years later, were still working, or, as painful as it sounds, had to come out of retirement to make ends meet.

There are 3 problems with the strategy of buy and hold forever.

1. During a secular bear market, it can take a very, agonizingly long time for the market to recoup the losses. The Dow Jones Industrial Average (DJIA) did not return to the 1929 high until 1954, a quarter century of dead money. The DJIA touched 1,000 in 1966. It then backed off, but did return briefly to this level in early 1973. We then entered a nasty bear market, with the Dow not closing above 1,000 for good until late 1982. But when factoring in the terrible inflation of the 70s, the DJIA didn't return to the 1966 level until 1991. Again, a quarter century of dead money, and gut-wrenching volatility, just to get even. At the end of the dot.com bubble in early 2000, the DJIA peaked just above 11,700. It then went down, and up, and down (as low as 6,547 in late 2008, 45% off the 2000 peak) before closing above that level for good in 2012. Again, more than a decade of pain, and volatility, just to get even.
2. The buy and hold devotees note that Warren Buffett says his favorite holding period is "forever." Mr. Buffett is the greatest investor of the last half of the 20th century, a Mozart-level genius. "Forever" may be his favorite holding period, but note: In 1969, Buffett liquidated his partnerships because he thought the market was over-priced and saw no bargains (his timing was perfect). In 1987, he quietly liquidated the retirement portfolios of Berkshire employees just before the October crash.[1] If you follow the quarterly reports from Berkshire-Hathaway (BRK), Buffett is buying and selling positions all the time.
3. I do think it is possible to time the market, not on a daily, weekly or monthly basis, but to appreciate long-term trends.

Technical data can be useful. One of the most basic is the Price to Earnings ratio, typically abbreviated as P/E ratio. The trailing 12-month average for the Standard & Poors (S&P) 500 is about 15. In general, the higher the ratio, the more speculative the stock price. The highest was 44.2 in December 1999, the top of the dot.com bubble. Other technical data that can be helpful are the dividend yield, the number of advancing and declining issues, up and down volume, new highs and lows, and estimates of the forces of supply and demand.

In spite of the trend of ever-encroaching bureaucracy, both in society in general, and medicine in particular,[2] it is still OK to use common sense and judgement to aid in decision-making. In 1929, Joseph Kennedy, Sr. and Bernard Baruch became suspicious that the market was over-valued when they received stock tips and advice from a shoe shine boy and the taxi driver.

Making money is hard. When there are claims of easy money and unimaginable wealth, such *Dow 36,000* in 1999,[3] you need to worry. But the best red flag of a market top is when people who really don't know what they are doing start to make serious money. My personal favorite: in early 2000, a physician crowed in the Doctor's Lounge that he had doubled his money on a dot.com stock in 1 month. You can be sure it's time to get out.

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The best definition I've heard of a long-term investment is a short-term investment that is losing money. Buy and hold forever is a myth. If investors didn't have to think, we would all be rich.

Disclosures

Dr. Doroghazi is not a registered financial advisor under federal law or any state law. The advice provided is of a general nature, and should not be interpreted as personalized or individualized to your specific portfolio.

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Dr. Robert Doroghazi is a retired cardiologist who trained at the University of Chicago, the Massachusetts General Hospital, and Barnes Hospital. Warren Buffett said his book *The Physician's Guide to Investing: A Practical Approach to Building Wealth* should be "required reading at med schools". To sign up for a free trial to *The Physician Investor Newsletter,* visit www.thephysicianinvestornewsletter.com.

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