

Posted to the Gilder forum - June 27, 2001

## What is Long Term Buy and Hold? (LTBH)

Gordon:

>>>I would like to know if you think LTBH is always the right approach.

To what? :-)))

One of the funny things that happens to us when investing is that we tend to forget our goals or maybe we don't even set any. "To make a bundle" is not a goal. My stated goal is: "I don't want to ever have to go back to work." My sub-goal is to never let my portfolio drop below a certain minimum -- right now it's almost 40% below that limit ;-(. Had I been paying attention to my goal then maybe in the middle of 2000 I would have cashed in. I'm down over 80% since then :-(. The sad part is that I actually talked about it with my broker and I never followed through.

>>>The 1969 to 1982 period essentially returned nothing to a LTBH investor - 13 years.

What stocks did this unfortunate investor hold? My guess is that you are basing your statement on the results of the Dow Jones or the S&P 500. Maybe index funds didn't do so well during those years. What was Lynch doing at the time? What was Buffett doing at the time?

In May 1967 Gamal Abdel Nasser ordered the UN observers out of Egypt, he blocked Israeli shipping in the gulf of Aqaba and sent soldiers to the Sinai. On June 5 Israel attacked and defeated the Arab States in the Six-day War but the war really continued and it broke out hot again with the Yom Kippur war of 1973 and it stayed hot with the second Arab oil embargo. The petro dollar was born. In 1976 Americans elected one of the worst decision makers ever in American politics, Jimmy Carter, who botched the Iranian hostage situation as bad as any American president has ever botched anything. It took Ronald Reagan and supply side economics to get America out of all that "malaise."

OK, maybe it was a time to invest in A bomb shelters and not a good time for LTBH. But my questions stands, what stocks did that unfortunate investor hold

during those years? Did he or didn't he not notice that there was a world war -- a cold one -- going on?

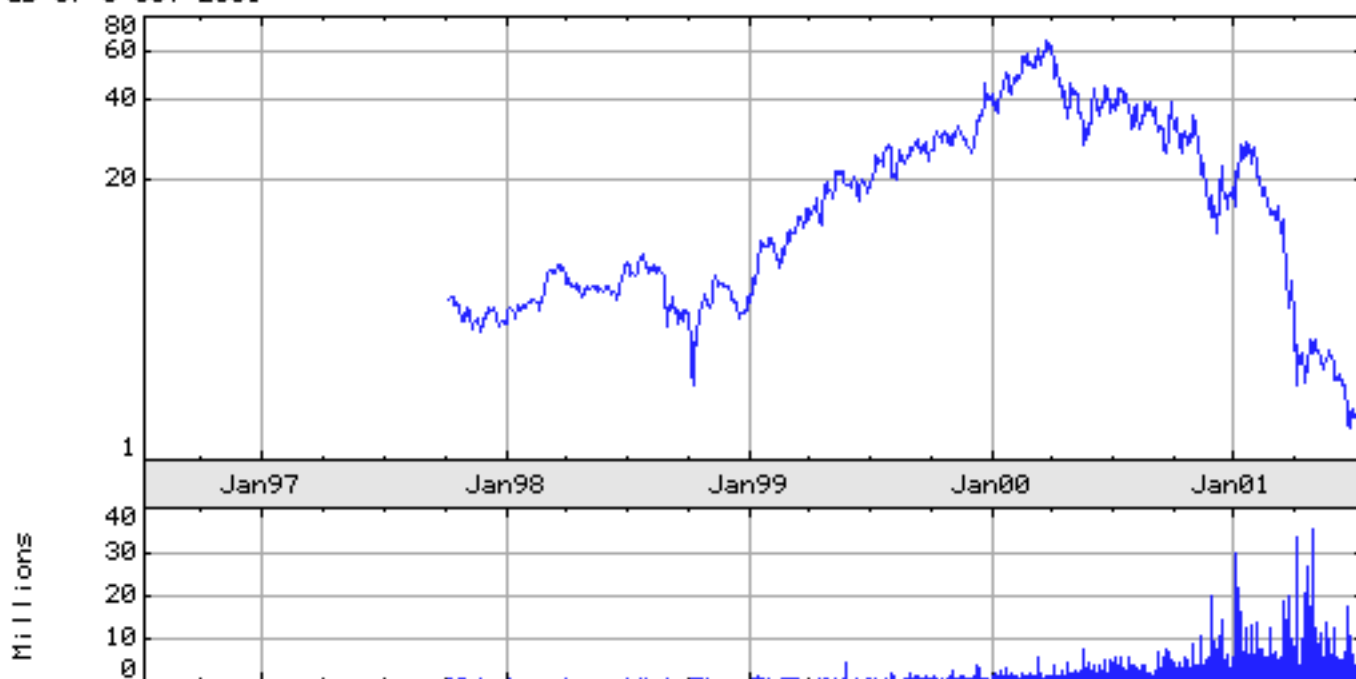
>>>All in all, I'd say we're trying to crack the toughest nut of all..

Tough, yes!

>>>and it may be made even tougher by adopting a LTBH strategy. Will it not become increasingly difficult to know when a company has matured? Don't you feel sometimes that the information available to you is useless or irrelevant or too late or too early? How does one know if they have all the information necessary to adopt a LTBH approach?

The Microcosm was no easier than the current Telecom as far as investing went. I remember buying a thin film company that was going to revolutionize the disk drive business, I lost my ass. Apple almost went broke, the stock was down to about \$2. I swapped the thin film disaster for Apple shares and watched them ride up to 20 something before I sold. Then it kept on going to 65 or so! Maybe you remember that IBM had to fire Ackers (SP?)? And DEC went broke? And Wang? And Xerox Data Systems? And Packard Bell? Sure the Microcosm looks simple now but when you were in the middle of it it was just as confusing as the Telecom is now. And I worked in the industry!!!! The one thing we know for sure is that we don't know for sure. That's the way the world works and you have to make your investment decisions in this fog of uncertainty. The good thing is that you don't need to be right all the time. As a matter of arithmetic, if you are right half the time and you let your winner run, you'll be way ahead. But you have to be logical. When GG introduced TerrorBeam most people rushed to buy Motorola. I, instead, sold NextLink at a huge profit (over 300% in less than 12 months).

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Am I a genius? Not really, I just know how to read. This was highlighted in the March 2000 issue of the GTR:

The first effect of the new wireless optics will be to disrupt the business plans of all the 24 GHz (Teligent), 28 GHz (NextLink) and 38 GHz (Winstar) microwave companies.

This one call-out paid for the GTR subscription for 250 years!!!!!!

Of the then 65,000 subscribers, probably less than 10% sold NXLK (now XOXO). When I reported the sale I was told that I was crazy because NextLink had all these other wonderful businesses. Sure! Don't fall in love with your stocks, they don't know that you own them. What I am saying is that you need to use common sense. If you bought NXLK for the spectrum then, as soon as that spectrum was threatened, you sell NXLK. No if, ands or buts. Take your profits and run! Sure I bought NXLK for the long run but TerrorBeam got in the way.

>>>Finally, I have found that LTBH is a 'cop out' in a sense as it implies a mindset that essentially says everything will be okay - all one has to do is pick the right companies and hold tight.

That is not LTBH, that is B&F, Buy and Forget, and it does not work. You need to have a reason to buy a company and you need to remember that reason. I recommend writing down the reason, what I call the "Story" on a 3 by 8 card. When the story ceases to ring true, you sell. Read the story I told above about NextLink. How did I know that the DEC story was over? I never invested in DEC but I did watch their ads. When I read one that said "DEC is the prettiest box for Windoze." I knew the company was DEAD! I told my broker about it and he said I was full of beans, I mean, DEC is DEC! There were lots of other hints by GG, some that he didn't even know he gave which were sell signals. When he confirmed that Terayon was not included in the DOCSIS standard, that was the time to sell Terayon, rainbow or no rainbow. I wish I had caught the G\* signal but, stupid me, I missed that one. Actually, I should never have bought G\* in the first place until it made a profit, there I broke one of my rules and it is costing plenty.

>>>I had a position in JDSU

I too, have a position in JDSU. It has dropped plenty from the top. But my position is essentially free because I took profits in time. I made 190% on my original investment and I have 1500 shares left at zero cost! And this brings me to my last point, a modified version of LTBH.

Owning shares in business means owning a piece of America. If you think America is going down the drain, sell. But if you have confidence that America will prosper, keep your shares and add to them as much as you can. The secret is to keep the cost of the shares as low as possible and that means "Buy Low and Sell High." For some reason that is hard to understand, when it comes to the stock market, people want to "Buy High and Sell Low." At least, that is what many do. When people saw the bubble, they all rushed in to buy, some recklessly even mortgaging their homes to get even more margin. Of course, these people are now broke because they bought high and were forced to sell low. This happened to them in a year or less and now they say that LTBH does not work, they never tried LTBH, how would they know? Honey and shit attracts flies just like money attracts people. But not all money is honey. So you need to know which company to buy and also how much you can afford to pay for it. Would you pay a million dollars for a Toyota? Of course not. It's a good car but not a million dollar car. Same with stocks. For over a year now P/E ratios have been compressing. This is not the time

to buy high P/E stocks. On the other hand, in 1999, when momentum was in our favor, we could afford to buy at "extravagant" P/E ratios that not only discounted the future but the hereafter.

You say that market timing is easy. I don't think I'll take you up on that issue. But I do believe that if you are patient, you can buy low and sell some of it high and later buy low again. By doing this you can accumulate more shares that if you just buy and put them away. For example, I just bought 1500 MFNX at 1.66 and sold 1000 at 2.21. The 500 shares that I have left from this operation have a cost of 64¢ a share, commission included. I have essentially 500 free shares and money to repeat the operation when the time is again ripe. You should do this only with shares that you want to hold for the long run because you might get stuck with them at the higher price for a longer time than planned. For example I did something similar with RFMD and it took me over 4 months to work out the play.

So, yes, LTBH is a good investing strategy in a country that is not going down the drain if you buy companies that are marching forward and if you sell when the time is ripe.

Denny

"Demand creates queues. Supply gets rid of them."

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