



Saturdays with Jim: Market Myths – An Interview With Yogi Berra

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Lawrence Peter (Yogi) Berra (1925-) spent 50 years in professional baseball, most of it as a coach and manager with the New York Yankees, New York Mets, Los Angeles Angels and Houston Astros. Yogi is probably one of the more widely quoted people (“It ain't over 'til it's over” and “When you see a fork in the road, take it”) and compiled one of the best records for a catcher. Indeed, he was the glue that bound together teams with which he was affiliated. We are fortunate to have Yogi and his wit with us today to discuss common misperceptions people have of investing in financial markets.

Gaia: Welcome Yogi!

YB: Thank you. I enjoy giving interviews with questions.

Gaia: If you could explode one myth about financial markets, what would it be?

YB: The financial markets are for gamblers and quick money artists. Sure, there is an element of luck and probability, just as there is in facing Don Larson's blazing fast ball. The movement (volatility) in financial markets and the massive riches one can make by speculating draw people into short term strategies like trading. For most people, trading will prove to slowly (or not so slowly) drain their capital. Like the roulette wheel, they win once in awhile - just enough to keep you in the game. But you eventually lose if you play long enough. If your mistakes don't get you, then trading costs will.

Gaia: If financial markets are not casinos, what are they?

YB: A stock market exists to provide liquidity and marketability (a means for exchange) for shares of stock bought by investors putting up money for business ventures (corporations). Bond markets serve much the same function. Both markets are necessary if capital is to flow freely. Prior to stock exchanges, investors had to find a buyer if they wanted to sell shares, much like you have to do in bond and real estate markets.

Gaia: Are financial markets good sources of wealth?

YB: That's the big question. Most people are alternatively attracted to or repelled by financial markets,

especially stock markets, depending on the public mood. In reality, stock markets deliver excellent inflation-adjusted returns over periods of at least 20 years, amounting to between 7% and 11 % per year depending on the time period selected and the markets measured.

Gaia: Why don't people tend to follow the long term performance of markets? Why do most people underperform?

YB: It's a matter of discipline and strategy, all connected to a person's psychology. For example, if I know a guy will swing at a low outside pitch, and have a pretty low probability of hitting the ball cleanly, then I'll send a sign for a low outside curve ball. Market participants, too, have their weaknesses and biases which combine to form a black hole for losses. Why else would someone buy Cisco Systems in 2000 at 100 times its earnings and expect to make a profit (by selling to another fool at a higher price in the future)?

Gaia: So, what's better?

YB: Ya gotta play the game smart. Ya gotta recognize that swinging for the fences every time you come to bat will result in more strikeouts than your record can absorb without a major salary cut, but you try anyway because the potential reward is so high. Nah, it's much better to find the person you really are and build on the strengths you have. Why should a relatively wealthy person risk large amounts of capital in unproven investments when more conservative ones would do? Ya gotta play your OWN game, not someone else's.

Gaia: What's another commonly held myth?

YB: That there is such a thing as a market guru. Everyone can have their 15 minutes of fame in a lifetime. But few can have consistent fame that endures through thick and thin. Following someone's advice because they called the last collapse will not guarantee you a free pass to the accident-free line in the next downturn. It's rare that anyone can do better than chance.

Gaia: That's depressing. Is there no reliable way to navigate markets?

YB: Of course. The answer is rooted in this phrase by former Yankee first baseman Oscar Wilde when he said, "Everyone knows the price, but no one knows the value." A successful investor must be able to buy at a price below "intrinsic value," or the price a knowledgeable person would pay for a business if all factors were taken into account - management strength, future cash flows, strength of assets, liabilities and so on. Furthermore, a successful investor must hold the security until it gains or surpasses the intrinsic value, adjusted from time to time by new information. Sure, there are other successful approaches like buying into fast growing companies, but any other strategy beyond buying undervalued securities is fraught with risk which could result in a quick and steep fall. The point of successful investing is to minimize risk even before you think of making a profit.

Gaia: How does one go about investing as you suggest?

YB: It takes hard work, discipline and patience to assemble a collection (portfolio) of low risk and high potential securities. And it takes constant monitoring to keep one on track. There is a large element of judgment involved. For example, ya need to know when to sell, possibly the most difficult decision an investor can make. Holding on to a security when the underlying company loses a competitive advantage or is falling behind creates angst, but if ya know your management well then it's possible to assess if the management has the capability to overcome such deficits as they face and, perhaps, to suggest that you should buy more of the security during times of distress when the price is down. But selling has another

dimension. If ya sell before a company reaches full value (full potential) you're leaving money on the table, so to speak. The prize goes to the people who know "when to hold 'em and when to fold 'em."

Gaia: Thank you, Yogi, for helping our clients get a fairer view of markets than the media may provide. Do you have one final comment?

YB: Yeh. If ya don't suit up, ya can't bat .300. Ya gotta come to the plate and take your swings in order to collect the rewards of playing. Ya can sit in the grandstands all of your life, but you will never know your full potential. This said, ya gotta play in the league best suited for you and ya gotta play your natural position. In investments, this means ya gotta invest in markets and securities suitable for your risk tolerance and your needs/goals using proven strategies, which include contributing to your account either systematically or at low points (the hardest thing for most people).

Gaia: It's been a pleasure, Yogi. Our clients can get your authoritative biography by reading Allen Barra's 2009 book called Yogi Berra Eternal Yankee. And, folks, don't forget to visit Yogi's official site, www.yogiberra.com. There, you'll find a brief bio and a partial collection of his unmatched sayings. Yogi Berra is as American as an Italian can be!

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