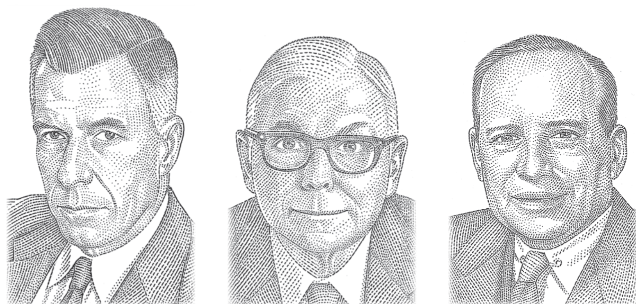
Timeless Wisdom for Creating Long-Term Wealth



THE EQUITY SPECIALISTS

"The function of economic forecasting is to make astrology look respectable."

John Kenneth Galbraith
Economist and Author

Disregard Short-Term Forecasts

"Where is the market headed from here?"

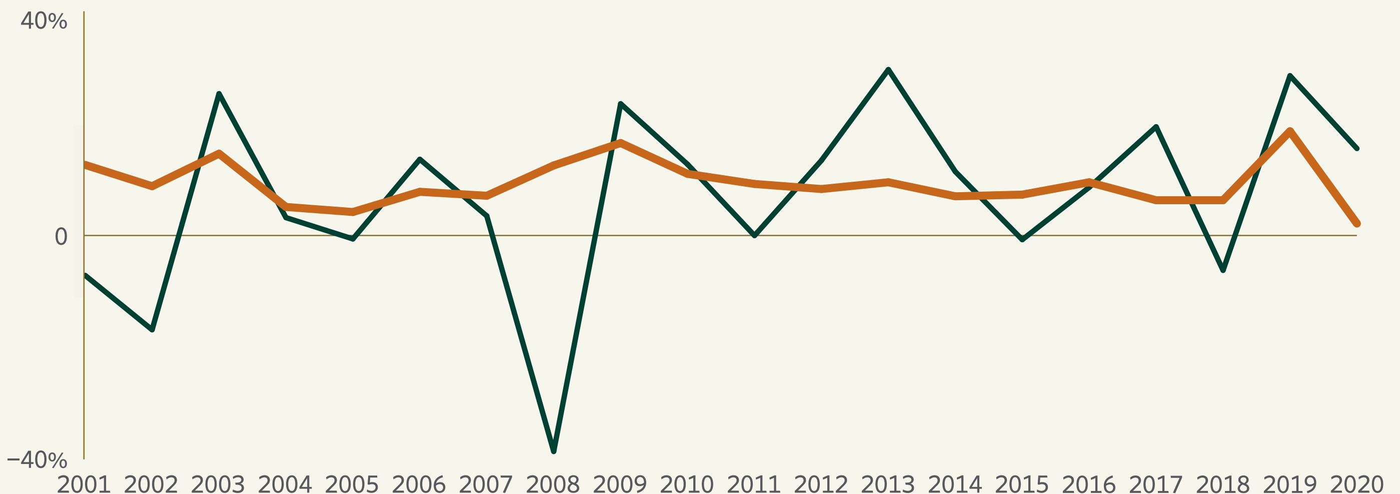
While an important question, the short-term direction of the market is unknowable.

The folly of forecasting is shown in the chart below, which tracks Wall Street's top strategists' average market prediction versus the actual return for the market.

The result? The forecast was wrong every year.

Making investment decisions based on market forecasts and predictions is a fool's game.

Instead, base your investment decisions on variables that are knowable: your degree of diversification, your true time horizon and the amount of money you need to invest to reach your goals.



Source: Barron's. From 1999 through 2005, numbers reflect Dow Jones Industrial Average forecasts. In 2006, Barron's began using the S&P 500 Index exclusively.
Past performance is not a guarantee of future results.

"A lot of people with high IQs are terrible investors because they've got terrible temperaments. You need to keep raw irrational emotion under control."

Charles Munger
Vice-Chairman, Berkshire Hathaway

Avoid Self-Destructive Investor Behavior

Market corrections often cause investors to abandon their investment plan, moving out of stocks with the intention of moving back in when things seem better—often to disastrous results.

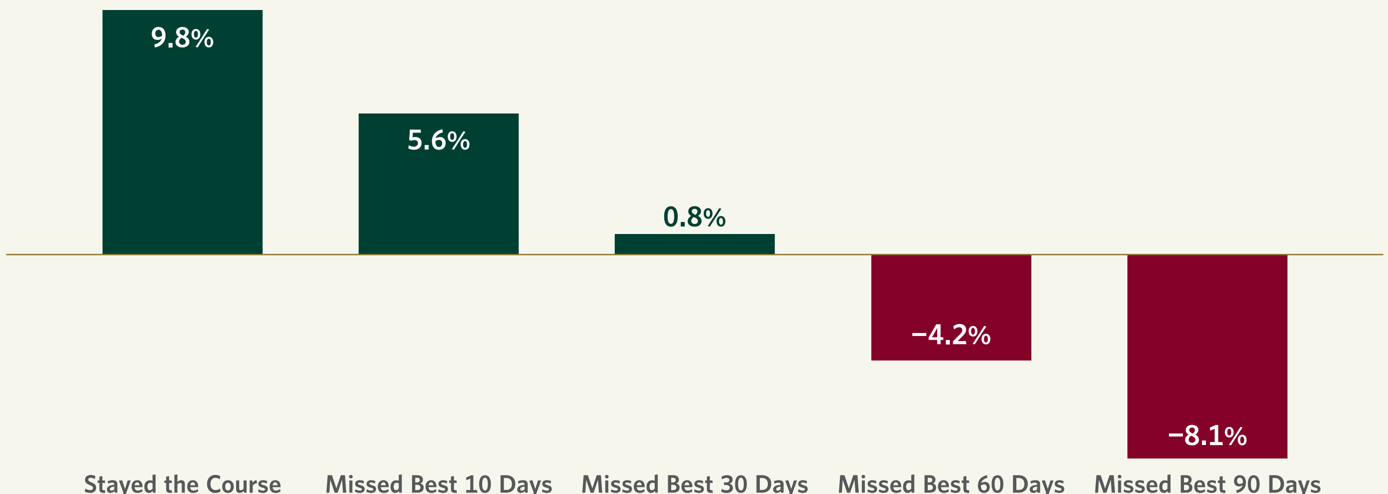
The chart below compares the 20-year returns of equity investors (S&P 500 Index) who remained invested over the entire period to those who missed just the best 10, 30, 60 or 90 trading days:

- The patient investor who remained invested during the entire 20-year period received the highest average annualized return of 9.8% per year.
- Amazingly, an investor needed only to miss the best 90 days for his return to continue to plummet.

Investors who understand that overreacting in the short term is a loser's game are also more likely to adhere to their long-term investment plan.

Long-term wealth is built by controlling emotions and avoiding such costly mistakes.

One of the most important services a trusted financial advisor can provide is to help remain disciplined, unemotional and focused on long-term financial goals.



Source: Bloomberg and Davis Advisors. The market is represented by the S&P 500 Index. Investments cannot be made directly in an index. **Past performance is not a guarantee of future results.**

"Systematic investing will pay off ultimately, regardless of when it is begun, provided that it is adhered to conscientiously and courageously under all market conditions."

Benjamin Graham
Father of Value Investing

Use a Systematic Investment Approach

A systematic investment approach involves investing money in equal amounts at regular intervals, regardless of the market environment. It can help investors build long-term wealth because emotions are removed from the investment decision-making process.

One example of systematic investing is an investor who initially invests $10,000 in stocks and adds $10,000 every three months over a 15-year period.

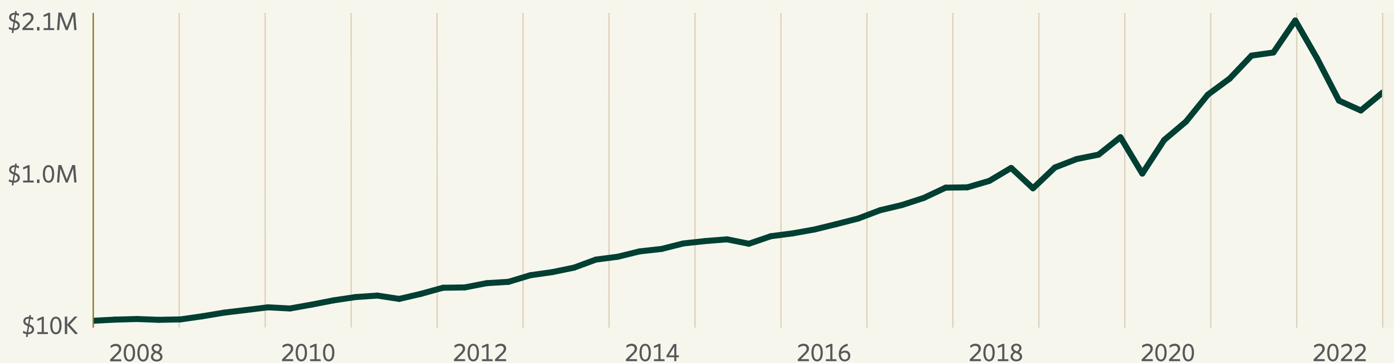
Should the market drop and stocks go "on sale" more shares would automatically be purchased—precisely when many investors would be too fearful to invest.

As shown in the chart below, this systematic investor would have over $1.5 million at the end of the 15-year period. By automatically making purchases even when the market fell, he took advantage of buying more shares at low prices.

A systematic investment approach may also help investors avoid selling out of stocks during market downturns, when pessimism is pervasive. The 15-year period shown below included difficult events such as the Great Financial Crisis and the COVID pandemic. A nervous investor who sold out of stocks during these periods would have significantly reduced their end result. The systematic investor, however, may have been more likely to stay the course, recognizing that such periods are opportunities to acquire good businesses at attractive prices.

S&P 500 Index Quarterly Value

2008–2022



Source: Morningstar Direct. Systematic investing does not assure a profit nor protect against losses in declining markets. Systematic investing involves continuous investment regardless of fluctuating prices. You should consider your financial ability to continue purchases through periods of high or low price levels. A hypothetical one-time "lump sum" investment in the market over this period would have had an average annual return of 8.80%. A hypothetical systematic investment of $10,000 made each quarter would have had an average annual return of 11.49%. The total amount invested is $610,000, the same amount as the "lump sum" and "nervous investor" amounts. A hypothetical "nervous investor" who went to cash at the market low in March 2009 would have had an average annual return of −2.90%. At the end of the period, the value for each investor would be: lump sum, $2,162,987; systematic, $1,571,579; and nervous, $332,540. **Past performance is not a guarantee of future results.**

Fifty years of successfully investing in equities has taught us that to build wealth investors must remain unemotional, disciplined and focused on the long term.

With this in mind, we collected three essential insights of investment wisdom for all investors navigating today's markets.

We hope they serve as a valuable guide as you save for retirement, a child's education or some other important long-term goal.

Collection of Wisdom

Davis ADVISORS

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The **S&P 500 Index** is an unmanaged index of 500 selected common stocks, most of which are listed on the New York Stock Exchange. The index is adjusted for dividends, weighted towards stocks with large market capitalizations and represents approximately two-thirds of the total market value of all domestic common stocks. The **Dow Jones Industrial Average** is a price-weighted average of 30 actively traded blue chip stocks. The Dow Jones is calculated by adding the closing prices of the component stocks and using a divisor that is adjusted for splits and stock dividends equal to 10% or more of the market value of an issue as well as substitutions and mergers. The average is quoted in points, not in dollars. Investments cannot be made directly in an index.

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