

## Odometers & Investments

There are a lot of parallels in the worlds of cars and money. Some cars appreciate while most depreciate instantly – the same can be said for investments but hopefully with an inverse proportion if well selected. A '70 Hemi Cuda that sold for \$3,000.00 brand new is now going on the Barrett Jackson auction block for \$2,000,000 today. A 1979 Honda Civic CVCC that sold for \$1600 new is now worth its weight in scrap metal. A share of Berkshire Hathaway that once sold for \$20.00/share in the 1970' is now selling for \$92,100.00/share. Of course in the 1970's people thought that the firm Mr. Gasket was going to be the next best investment going – until they filed for bankruptcy in 1991. I see a lot of folks who have 401(k)'s that have turned into 201(k)'s in the past few years as the markets have melted down – just like our cars do when they're recycled. How do you measure or gauge whether a car is doing its job? If it runs well, gets you from point A to B, operates reliably and allows you drive hard when you're in the mood it's likely doing a great job for you. If you like the car and it does what you're looking for who cares what it costs? Nobody does – it's priceless. Why did you buy your car? I'm sure there are better cars out there but what made you choose your car? Many buy for price, looks, performance, status, economy, and reliability – whatever the reason you selected it from thousands available and as long as it continues to do what you're looking for you'll keep it – once it stops doing what you're looking for you'll sell it. Let's think through how many people choose their cars. If you're looking for price you'll likely begin with a "cheap" car or a used one – see which one(s) fit your budget and begin test driving to see which of those you feel the best is for you. If you shop for looks perhaps you saw an ad in a magazine, this paper or saw a car on the streets and you just had to have it – if it looks cool in your eyes then it fits your bill. If you're shopping for performance maybe you spent the Memorial day weekend at Lime Rock and saw Corvettes, BMW's, Porsches and Pontiacs dominate so that begins your shopping list. If you're shopping for status you may be after a Benz, Lexus, Cadillac or Bentley – whatever you believe to be a status car. Status is all about perception – in Europe Benz & Audi's are taxis while in the states they're considered all out luxury cars. Perception is reality and I define status as buying things you can't afford to impress people you don't care about. Our taxi's are Crown Vic's – as are our police cars – always better to be in the back of a yellow Crown Vic over a black and white one. ☺ If you buy for economy and reliability you likely start with Consumer Reports and see which cars have the lowest overall cost of ownership and pick the few at the top of your list then begin test driving. Regardless of what you're buying for there is a process and if followed correctly you'll get what you want. At the end of the day you likely test drive all of the cars on your final list, buying the one that feels the best to you. Since you get to test drive them the process is easy once you're behind the wheel – there is usually a stand out. You measure a cars performance with an odometer – to see how many miles you can get out of it or with a stopwatch – to see how quickly you can accelerate from 0-60 or how quickly you can conquer the quarter mile.

In the investment world the process can be very similar. If you want to buy growth stocks as investments you do a search that measure the growth rate of the company,

return on assets, return on equity and profit margin and narrow down all of the stocks down to a more manageable list of 50 – 100. Once you've narrowed it down now it's time to hit the books and research the companies in depth. You need to know the business entirely – how good is the management, what are the revenues, expenses, how is the company growing, how big is the potential market, what does this company have that is a competitive advantage, why this company over its peers. Once you've that type of due diligence on all of the firms that have made your end list you'll have a few that you feel passionate about – but you don't get to test drive these companies – you have to buy them somewhat blind – unless you're willing to travel to visit the companies. Now unlike cars it isn't wise to buy investments based on past performance – often investments can be tricky – the worst performers of the bunch in the past can be the best performers moving forward. In the auto world a Corvette will always smoke a Camry in the quarter mile – this will never change as the cars age. Investments don't work this way – the winning stock of the 1980's may be a loser today and vice versa. How do you gauge an investments performance? Typically rate of return is the best gauge – but make sure you measure over the appropriate time period. With investments you can measure the price every minute of every day – you can gauge the performance too often – if your time horizon is 20 years it likely doesn't make sense to check the value of your investments four times per day. You need to keep abreast so if your winner turns into a loser you can get out but don't over do it. It's like measuring the distance of your road trip from here to California with a ruler – clearly the wrong tool. The odometer is the correct tool for this job. When measuring investment performance the frequency of checkups is likely best to be quarterly or annually providing you've got a professional managing the account daily. If you're doing it on your own daily is the only way to do to it. Enjoy the ride. ☺

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