Investing is a Different Ballgame

July 11, 2016
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Sir John Templeton was a legendary investor. When WW2 broke out, he believed that the point of 'maximum pessimism' was reached and that the war would pull America out of the Depression of the 1930s. So, he called his broker and instructed him to buy 100 shares of every single stock selling below $1 a share. He bought 104 corporate dogs (34 of them were in bankruptcy) for about $10,000. 4 years later, he sold them for about $40,000 – around $1 million in today's money. A nice home run.

Templeton was a pioneer in international investing. He was also noted for his flexibility by investing in troubled countries. Over his career, he invested in countries as diverse as Canada, Japan and Peru (during the 1980s when the Maoist guerrilla organization the Shining Path held the country in terror). His basic philosophy can be summarized as: *search among many markets for the companies selling at the largest discount to their true worth*.

Templeton has said that success in investing requires independent thinking and contrarianism – traits not needed in most professions.

Here is Templeton in his own words:

> *It is crucial to understand, and very few people do, that attaining superior investment performance has nothing at all in common with succeeding in 99% of other occupations. If you were building bridges and a dozen consulting engineers experienced in bridge building all gave you the same advice, you'd be stupid not to build your bridge their way. In all probability, if the experts all agree, their way is the right way to do it. You'd build a better bridge at lower cost if you followed their advice. But the very nature of investment selection process turns that scenario topsy-turvy. Let's assume that every securities analyst you see says, 'That's the stock to buy!' You might think that if all the experts are saying 'buy,' you should. But you couldn't be more wrong. To begin with, if they all want it, they'll all buy it and the price will build up enormously, probably to unrealistic levels. By the same token, if all the experts say, 'It's not the stock to buy,' they won't buy it and the price will go down. It's then, if your research and common sense tell you the stock does have potential, that you might pick up a bargain.*

There is a joke that you should buy whatever Goldman Sachs has sell recommendation on and sell whatever Goldman Sachs has a buy recommendation on. However, one should not be a contrarian for the sake of it – you must also be sure that the crowd is wrong.

Here are my favorite quotes by Sir John Templeton:

1. Bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria.

2. To buy when others are despondently selling and to sell when others are euphorically buying takes the greatest courage, but provides the greatest profit.

3. If you want to have a better performance than the crowd, you must do things differently from the crowd.

4. The four most dangerous words in investing are: 'This time it's different.'