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CIBC Wood Gundy

The Most Important Investing Concept

Think like a business owner.

That's the most important concept. If that is all that you do, you will probably succeed in your investments. Stock ownership is properly viewed as ownership of a portion of a business. Many investors lose sight of this basic fact, and their investment performance suffers as a result. So what does it mean to think like a business owner?

Imagine that you had $1 billion or $10 billion to invest instead of $1 million or $100k. Having that amount of capital at your disposal might instantly change your perspective on investing, as you would be able to acquire entire businesses, if desired, instead of just some shares. But many good businesses are not for sale, and taking over a public company is complicated. You would quickly realize that you had better understand your target company really well.

This would necessitate intensive research into the company's competitive position, products, strategy, management, financial strength, and other characteristics. If you get it wrong, a large amount of your capital could be tied up in an underperforming asset with no easy exit strategy. However, if your analysis were to be proven right, you would be sitting pretty as the sole owner of a large, profitable, and growing business. It is likely that you would be thorough in your fundamental research.

Your company would not be listed on a stock exchange, as you would be the only shareholder. Therefore, you would not have the ability to obsessively check the share price. Ideally, your mind would be focused on the long term, and you would hire management capable of developing and adhering to a long-term strategy. It is possible that you would occasionally receive unsolicited offers from people interested in purchasing your business, but these offers would be easy to disregard, unless they were extremely attractive.

Jim Pattison is a good local example of a very wealthy person who has acquired entire businesses and has held on to them for many years. He purchased an initial Vancouver-based car dealership more than 50 years ago and managed to grow the business into a multi-billion dollar empire of dealerships, grocery stores, billboards and other assets now called the Jim Pattison Group. Today, the Jim Pattison Group remains a private company that, as far as we know, is owned solely by Jim Pattison. His businesses surely went through periods of disappointing results, but he did not react by selling them impulsively. He has behaved like a true business owner, not a trader of shares.

It is useful to contrast Jim Pattison's behavior with that of the typical stock market investor. The stock market brings out all kinds of psychological flaws in people. Chief among them is the tendency to focus on the short-term performance of a stock's price, rather than the long-term prospects of the underlying business.

The stock market is simply a fast-paced auction involving numerous bids and offers for a company's shares. While in the long run, stock price movements are linked to a company's profits, in the short run, a stock price can fluctuate randomly or on the basis of irrelevant or incorrect information and opinions. People then confuse stock price movements with meaningful information about a company's long-term business prospects. This often leads to bad financial decisions. Regardless of what stock prices do, we are not compelled to constantly transact. Reacting too strongly to short-term stock price changes is usually counterproductive if the true goal is to build long-term wealth.

On the other hand, thinking like a business owner has clear advantages, even if you can only afford to purchase a small holding. Your focus will shift to the underlying business performance and away from the constant changes in the stock price. There may be many stocks that you are simply no longer interested in buying, as you would not be interested in owning the entire company if you were a billionaire.

This realization can be a light that comes on for many people who have speculated in low quality stocks. It can help them distinguish unproductive speculation on stock price movements from intelligent long-term investing and therefore materially increase their long-term wealth. It is important to acknowledge that most publicly traded companies are simply not high quality businesses, and there is no reason to own their shares.

Finally, thinking like a business owner will increase your patience, as you will be more committed to your investments and more willing to allow them to manage through a variety of economic environments. Famous value investor Warren Buffett once commented that you should only buy something that you'd be perfectly happy to hold if the market shut down for 10 years. While Buffett's comment may seem exaggerated, it is true that Jim Pattison has gone 50 years without a quoted market for the bulk of his business assets.

We want to influence how our clients think, in order to help them achieve their financial goals. If this article has successfully convinced you to think more like a business owner, a final question arises; namely, how does that message apply to clients? Clients have engaged us to make investment decisions on their behalf. We can answer the question in part by saying that clients have delegated the task of thinking like a business owner to us, and that is what we do on a daily basis. The other part of our answer is that we encourage clients to ask us about the businesses that they own in their portfolios. Questions about a company's long-term prospects, competitive position and strategy are very welcome, and we will do our best to answer them to clients' satisfaction.

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