

# How to Invest When You Only Have an Hour a Day to Do It

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By Geoff Gannon

Someone who reads the blog emailed me this question:

*"If one was a widely-read value investor but only had 5-10hrs per week to spend on investing (due to employment / family constraints) and one had less than \$1m, would you recommend a classic Graham net-net portfolio as the surest and best way to make market beating returns? If no, what other strategy (apart from indexing) would you recommend under these time constraints?"*

I'm going to rephrase this question as "If one only had an hour a day to spend on investing". You said 5 to 10 hours. I'm going to ask you to spend 5-7 hours a week on investing. But it must be an hour a day – every day – instead of five hours all at once. There's a reason for this. I want you 100% focused when you are working on investing. You don't have to spend a lot of time on investing. But you do need to be focused when you are doing it. Most people who invest are never fully focused for even an hour on a narrowly defined task. So, that is what I need from you. An hour a day of total focus. If you can't do it every day – then don't do it at all on weekends. Just spend an hour a day on Monday through Friday. But never skip a day. Okay. Let's say you're willing to make that commitment. Then what?

The approach for you to use is not a net-net approach. It's a focused approach. A concentrated approach. You don't have a lot of time. So, you need to spend that time focused on what matters most. Stock selection is what matters most. So, first I want you to give up the idea of selling stocks. Don't worry about it. You're only going to sell one stock to buy another

stock. You're not going to sell a stock because it is now too expensive, the situation has played out, etc. Okay. So, we've cut out about half the time investors spend thinking about stocks. You can now devote all the time you would have spent thinking about selling the stock you already own and instead double the time you will spend thinking of the next stock to buy. I also want to eliminate the idea of portfolio management – asset allocation, diversification, etc. – from your schedule. So, I'm going to ask you to commit to identically sized positions. By this I mean the positions will be the same size when you buy them. So, if you are comfortable being as concentrated as I am – then you'll want to set 20% as your position size. You'll own just 5 stocks. If you want to be more diversified – you can settle on owning 10 stocks at a time. That's fine. But I don't want you to have some 5% positions and some 20% positions. If you are going to own 10 stocks at a time – make every position a 10% position. If you want to be really, really diversified – you can own 20 stocks at one time. In that case, every time you buy a stock – you put 5% of your portfolio into the stock. There's no point owning more than 20 stocks. It doesn't do much to diversify any risks. And it does distract you from what matters most – deciding which stock to buy next. So, start out by making that decision now. Do you want to own 5 stocks, 10 stocks, or 20 stocks? Do you want to put 20% into each stock, 10% into each stock, or 5% into each stock? Make that decision now. And then that rule is set in stone for you. Never vary how much you put into a specific stock. This will keep you from being distracted by concerns about how much you like a stock – how much you "should" allocate to it. The answer is that you should allocate the same amount as you always do to every stock you like. Now, you can focus 100% on finding stocks to buy.

The next thing you need to do – if you only have an hour a day to spend on investing – is to commit to holding stocks for as long as possible. This is critical. I was talking to someone recently who considers himself a buy and hold investor. And yet he found that over the last year – when he was pretty happy with his portfolio – he still had portfolio turnover of about 30%. That means, on average, he was holding stocks for only about 3 years. And he probably had years – years where in January he liked the stocks in his

portfolio less – where his turnover was more than 30%. Let's think about the difference between owning stocks for an average of 2 years – as even many value investors do – and owning stocks for an average of 5 years. I want you to try to get closer to the 5-year holding period. Why?

The three choices I gave for diversification were a portfolio of 5 evenly weighted positions, 10 evenly weighted positions, or 20 evenly weighted positions. The ideal situation in terms of focused attention is a 5-stock portfolio and a 5-year holding period. That's because this is a low maintenance portfolio. The "maintenance" level of idea replenishment is just one great idea per year. You have an hour a day to spend on investing. If you spend that every day – including weekends – that means you have 365 hours to spend picking just one stock. Coming up with one good idea for every 365 hours you spend looking for one sounds easy, right? Even if you don't work on investing on the weekends – it'll still be 260 hours of thought to come up with just one idea. Now, what if you own 10 stocks and hold them each for 5 years? Then your idea replenishment rate has to be  $10 \text{ stocks} / 5 \text{ years} = 2 \text{ stocks a year}$ . If you're only spending 260 hours a year on investing – we're down to 130 hours spent coming up with one idea. At 20 stocks / 5 year holding period it's 4 stocks a year. And that's only 65 hours of thinking per idea. Think of the worst-case scenario here: a portfolio of 20 stocks that you only hold on average for 2 years. Some investors do invest that way. How can they? You're still committing to just 260 hours of focused thought on investing. But now your replenishment rate is  $20 \text{ stocks} / 2 \text{ year holding period} = 10 \text{ stocks a year}$ . You'd need 10 new stock ideas this year. You only have 260 hours to spend thinking about investing this year. So, you'd have to come up with one great idea every 26 hours. That's less than a work week (40 hours) of thought to come up with a great stock idea. Who can do that? You're going to end up relying on other people's judgment. Because you aren't going to have enough time to form an opinion of your own.

Let's go back to the ideal. You spend an hour a day – including weekend. You only hold 5 stocks. And you hold each of them for 5 years on average. That's 365 hours of thinking for just one great idea. This is what I want every value investor to reach for. Come as close to spending one focused hour a day on investing as you can. Come as close to keeping stocks for 5 years as you can. And come as close to owning just 5 stocks as you can. Most investors will fall short of each of these 3 goals. But these should be the goals you're reaching for.

So, what kind of stocks should you spend this 365 hours a year looking for? And where can you find these ideas? You want great businesses that are having temporary problems. You want a list of companies you might one day own. Where can you come up with such a list? GuruFocus has a Buffett-Munger newsletter, it has a Buffett-Munger screen, and it shows 15 years of financial data for stocks. Look for the predictable ones. You can use ratings on this. But, look yourself at predictability as you would judge it – not just as a computer program would. Do you see a dependable history of EPS stability, EPS growth, margins, returns on capital, etc. I look at operating margin (EBIT) margin volatility. That's always my favorite measure. In my experience, most companies – by which, I mean most managers who run the day-to-day business of each unit, location, etc. – don't want to do less physical volume this year than last year and they don't want to have a thinner profit margin. They like doing a little more physical volume – unit volume – than last year and they like making a little more profit per dollar of sales than they did last year. They are frightened by the idea of falling volume and falling margins. So, the competitive pressure in a lot of industries is toward protecting volume and protecting margin. When volume declines – a company may try to lower prices, increase marketing, etc. When margins decline – a company may try to cut overhead, look for synergies, cheapen the product, etc. We often don't have good unit volume data. In fact, most public companies are too diversified across too many different product lines to have consistent reporting on unit sales and pricing per unit. Some commodity type businesses do have data on this. A miner, a steelmaker, an airline, a hotel, etc. has good data on this. But all companies

have data on EBIT margin variation. So, that's what I look at. EBIT margin is just pre-tax operating profit divided by sales. The level of the EBIT isn't what's important to me. In a business like software you could have an EBIT margin of 30%. In a business like groceries you could have an EBIT margin of 3%. What matters to me is how likely it is that the 30% margin for the software company is going to stay in the 20% to 40% (plus or minus one third of the average), and how likely the margin of the supermarket is to stay in the 2% to 4% range (plus or minus one third of the average). That's really the same thing. So, stability in the EBIT margin has to be defined as variation scaled to the mean. For a company that has been profitable in each of the last 15 years – you could use 15-year average Standard Deviation / Mean. That's a number I track in Excel. I prefer industries where EBIT margin variation (defined as the Standard Deviation in the 15-year EBIT margin divided by the 15-year mean EBIT margin) is low. And I like those companies in an industry who have the lowest EBIT margin variation. These are usually the least marginal players. They are leaders in their market niche. The weakest companies in an industry – especially those that compete primarily on price – often have wobbly EBIT margins compared to the leaders. It's not a perfect measure. Scale can be a problem. Some companies have wobbly EBIT margins simply because they aren't big enough to enjoy economies of scale. These companies may not be good investments yet – but they are good takeover targets for the bigger companies in the same industry. So, this isn't a perfect measure. But some measure of predictability – whether it's EBIT margin variation, or GuruFocus's predictability measure, or your own eyeballing of the 15-year history, is a good place to start your search for ideas.

You can read blogs and articles. I recommend the GuruFocus articles written by "The Science of Hitting":

<http://www.gurufocus.com/news.php?author=The+Science+of+Hitting&u=110170>

And the blog "Base Hit Investing":

<http://basehitinvesting.com/>

There are also idea boards like "Value Investor's Club":

<https://www.valueinvestorsclub.com/ideas/atoz>

I don't recommend Value Investors Club the same way I do the blogs and articles I mentioned above. A lot of that board is short-term oriented, interested in shorting, etc. And the quality of the ideas is very hit or miss. So, I'm not suggesting VIC on the basis of idea quality. Just quantity. It has a ton of different stocks that have been posted there over the years and those stock ideas come with plain English descriptions of the business and its possible competitive advantages. So, it's a good place to peruse.

One caveat: if you're going to read articles and blogs – don't read them willy nilly. Block out your article and blog reading times. So, don't read one article of mine at a time or one "The Science of Hitting" article or "Base Hit Investing" blog post. Instead, identify the articles you are interested in as you find them. But then print them out and put them aside till the end of the week. I want you to spend a full hour of total focus reading the blog posts, articles, etc. you thought you'd be interested in. Don't just dip in for 15 minutes at a time reading blog posts, articles, newspapers, etc. as you come across them during the week. Put them away in a folder till you are ready to focus on them.

This is what I do. I have baskets that I fill with reading material during the week. Then I tell my Amazon Echo to set a timer for one hour and I read as much of the material as I can get through. I put the rest aside till later and do this again. I read with a pen in my hand and mark up the articles, posts, etc. I read with questions of my own. This ensures I'm 100% focused and 100% engaged with the material. Most people who read an article or blog post are neither fully focused on it nor fully engaged with it. They just read it passively for 10 or 15 minutes and then move on to the next unrelated task. They may have just been checking their email a minute before and will be checking their phone a minute after. Don't do this. Create a "batch" of reading material you're interested in. Set a timer for one hour. And then do nothing but read that material for that hour. An hour a day is plenty to spend on investing. But you have to spend it 100% focused.

For more information on how to do this kind of focused work you can read the book "Deep Work: Rules for Focused Success in a Distracted World" by Cal Newport. I'm recommending the subject. I'm not really recommending the book as a book. It's not a great book. But it's a great subject. And I'm sure you'll get something out of reading the book if you haven't already.

So, my five suggestions for someone who only has an hour a day to spend on investing are: 1) Read "Deep Work: Rules for Focused Success in a Distracted World" 2) Spend all your investing time focused entirely on selecting which stocks to buy 3) Read articles from authors like "The Science of Hitting" and blogs like "Base Hit Investing" – but only in hour long focused batches of reading material 4) Use tools like GuruFocus's predictability ratings and 15-years of financial data to find the most predictable businesses and 5) Buy great businesses that are going through temporary problems.