

“Patience as a Process”

April 22nd, 2018

To Focused Compounding members:

Andrew and I recorded four podcast episodes this past Friday. One of them was a Q&A podcast where the question was about patience: “*Would love to hear your general thoughts about what I consider the greatest investment virtue of them all: patience. How do you think about it and how do you approach it practically? Can it be cultivated?*” We didn’t give this question the time I think it deserved on the podcast. So, I’d like to give it a little extra time here in the Sunday morning memo.

Patience is a process. Warren Buffett has a quote he cites so frequently that some people think he’s the originator of the phrase: “*The chains of habit are too light to be felt until they are too heavy to be broken.*” Each day – as you are using your phone and your computer – you are re-wiring your brain. You are forming the habits of exactly how (and how often) you check your stock quotes and place your trades. You are forming reading habits. When online: do you read things word-for-word or do you skim? Do you decide what to read ahead of time, or do you let reading material come to you throughout the day? None of these things are sins. But they are all habits that must be unlearned if you ever – even just once – want to force yourself to do the exact opposite. If you spend every day of your online life skimming paragraphs, it will take you extra effort to read a 10-K word for word compared to someone whose brain has been wired – through daily training – to read every word of every paragraph he encounters. He won’t feel an urge to skim. You will. It takes a lot of willpower to regularly resist an urge. So, don’t. Don’t resist urges. Instead use what precious little willpower you have to shift your habits from unhelpful ones to helpful ones.

A habit is just a process you practice every day. To change your habits, change your process. Stop using an online broker. Stop placing your own trades. I call an actual human being on the phone and place all my trades that way. This one change will cause a dramatic drop-off in your turnover rate. Trading today is so cheap and easy that it seems costless. The cost is patience. In an earlier era, there were big costs and big inconveniences in trading stocks. A desire to avoid those visible costs inadvertently caused investors to avoid the invisible cost: a habitual erosion of their patience. Every trade you place makes you more likely to place another trade in the future. Cultivating patience is about cultivating inaction. It’s about building up intellectual inertia. An impatient investor acts quickly based on a small amount of analysis that supports a barely decisive conclusion. A patient investor acts slowly based on a large amount of analysis that supports a clearly decisive conclusion. The biggest difference between an impatient investor and a patient investor is that it take more – **more** facts, **more** analysis, more of a **difference** in price – to move a patient investor from inaction to action and out of one stock and into another. A patient investor has a broader “swath of indifference”. He sees two stocks and is unsure which is decisively the better choice at today’s price. And so, he sticks with what he has. Meanwhile, the impatient investor finds some reason – often a very recent one – to indulge in the most human urge of all: the urge to act.

A handwritten signature in black ink that reads "Jeffrey Hannon". The signature is written in a cursive, flowing style with large, connected letters.