LAWSON KROEKER
INVESTMENT MANAGEMENT

As We See It

Short-term thinking is the enemy of long-term investment success.

One aspect of portfolio management which we discuss with prospective and present clients is that of "time horizon." As is the case with may concepts in our business, this phrase is used loosely and means different things to different people. What really complicates the issue is the fact that the concept of time horizon applies to portfolio management in numerous ways.

Perhaps the most commonly used meaning of the concept is the anticipated holding period of a security. Other time horizons relate to objectives or the achievement of certain goals, or the occurrence of a particular event. Another feature of time horizon is that it is not static. It may change over the life of a portfolio, and if it does, it will influence the mix of assets in the portfolio.

In terms of the individual securities in a portfolio our emphasis is on long-term investing. Admittedly, that is an ambiguous period of time. In the case of stocks, we are certainly thinking in terms of years rather than months. With regard to bonds, we generally hold until maturity as opposed to trading in anticipation of interest rate swings.

This style is not for everyone. A manager's temperament and skills have a lot to do with determining the time horizon of an investment. A long-term time horizon requires patience and thorough fundamental analysis. With a short time horizon, managers are more likely to be successful if they are impatient and respond to daily news events. It is critical that the investment manager's and client's time horizon are philosophically compatible. If not, it will lead to dissatisfied clients and frustrated investment managers.

Time horizon also applies to the entire portfolio. A portfolio may be of relatively short duration such as one designed to provide a college education or the time horizon may be a lifetime. In fact, it could be perpetual as with a foundation or as in a case where assets pass from one generation of a family to the next. Also, the time horizon of the portfolio might be determined by the anticipation of a particular event such as the purchase of a home, retirement, or death.

Passing years and the accompanying change of circumstances likely will change the time horizon of a portfolio and therefore will influence its composition. Generally speaking, the younger the person, and the less dependent that person is on the income from a portfolio, the longer the time horizon and the greater the portion of the portfolio which can be invested in long-term assets such as stocks. Conversely, as one grows older and becomes more dependent on the income from the portfolio, the time horizon shortens and the portfolio mix becomes more conservative with a greater reliance on bonds.

To properly manage a portfolio, we believe it is extremely important that there be a basic understanding between ourselves and our clients as to the time horizon of their portfolios.

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