

# A FRESH LOOK AT WARREN BUFFETT'S NUMBER ONE RULE FOR INVESTING



One of the most widely quoted pearls of wisdom from legendary investor Warren Buffett is, "Rule No. 1: Never lose money. Rule No. 2: Don't forget rule No.1."<sup>1</sup>

It's a quote people love sharing on social media. After all, if you're posting the number one investing rule of the Oracle of Omaha, it makes you look pretty smart.

Unfortunately, nobody (on the Internet at least) seems to be able to find an original written source for the quote or even the of name somebody who claims to have heard Mr. Buffett utter it.

However, that doesn't conclusively proved that he never said it. So for the sake of argument, let's agree that he did give those words as serious advice, and try to figure out what he might have meant.

## **Beyond The Obvious**

Telling an investor to never lose money is like telling a football coach to never lose a game or a sea captain to never let his ship sink. Of course that's the result they most want. But each of these endeavors cannot be undertaken without the risk of loss. A ship tied to the pier can still sink. A forfeited football game counts as a loss. And cash sitting "safe" in the bank loses future buying power every day due to inflation.

Additionally, Mr. Buffett himself has not been able to live up to his own No. 1 rule. Berkshire Hathaway stock, his largest investment, has experienced sustained declines in value in the last two recessions. In early 1999 Berkshire began a year-long decline that saw the stock price lose more than 40% of its value. And it happened again in late 2008.<sup>2</sup>

But maybe this is where investors were wise to follow Buffett's No. 1 rule, with a long-term interpretation and greater understanding. After both declines, shareholders who were patient saw their stock eventually regain its value and go on to be worth multiples of its pre-recession high.

Notice that the rule doesn't state "never let your investments decline in value." Short-sighted investors, who sold out at or near the bottom of the stock price decline, broke the rule by turning their paper loss into actually "losing money."

This aligns with another well-known quote commonly attributed to Buffett that goes, "Unless you can watch your stock holdings decline by 50% without becoming panic-stricken, you should not be in the stock market."<sup>2</sup> (Again, difficult to source conclusively.)

It was very apropos for investors who from late 2007 through early 2009 saw the S&P 500 Index lose about half its value. Those who panicked and sold near the bottom missed out on the recovery. Those who maintained a long-term perspective and remained disciplined saw the index steadily regain its value until nearly doubling its pre-recession high.<sup>3</sup>

Whether Mr. Buffett actually made this point or not shouldn't detract from its powerful perspective. Pursuing inflation-beating, long-term returns from stocks requires a commitment that you'll have to endure periods of significant decline throughout your investing lifetime. Stock return premiums can be significant over time but only for those disciplined enough to continue pursuing them when every headline and TV talking head is declaring disaster.

But possibly the best advice for Warren Buffett admirers is in a quote we know for sure that he made.

In his 2014 letter to shareholders, he directed that upon his death the money he has set aside for his wife be invested in broadly diversified mutual funds. He said, "What I'm suggesting is that this is what a very high percentage of people should do."<sup>4</sup>

Not as profound or as share-worthy as the other two quotes. But certainly more easy to follow.

Talk to us about how a globally diverse portfolio can play a major role in your long-term investment strategy. And then ask us to hold you accountable to exercise the critically-needed patience while others may be panicking over market volatility.

And always be suspicious of quotes you find on the Internet.

Have a great weekend!

Source: Efficient Advisors

## Golf Tip of the Week



### Flushing It Out of the Rough

Cue the Indiana Jones music. Your ball landed somewhere in the rough. Now you have to go in search of your lost ball.

Once you spot it, what do you do to get it out and back on the fairway?

Here are three steps to rescue your ball from the rough:

1. **Choose your club wisely.** If the green is still a ways away, use a higher-lofted fairway wood. The wider sole of the club allows you to cut through the grass more smoothly.
2. **Next up, the address.** The ball shouldn't be any farther away than the center of your stance. Grip your club a little lower and put more pressure on your front foot.
3. **Now the swing.** Prepare to swing with your hands clutching the club so that the clubhead turns abruptly upward. This creates a sharper angle for contact.

Here's a quick way to remember this process: Up and oomph. Up refers to the steeper takeaway and oomph refers to the aggressive downswing.

Tip adapted from GolfDigest<sup>i</sup>

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## Recipe of the Week

### Roasted Cumin Shrimp and Asparagus



Serves 4

#### Ingredients:

1 cup couscous  
1 navel orange  
Kosher salt  
Pepper  
20 large shrimp, peeled and deveined  
2 tablespoons olive oil  
½ teaspoon ground cumin  
¼ teaspoon cayenne  
1 pound thin asparagus, trimmed

#### Directions:

1. Put couscous in a bowl. Pour on juice from half an orange and 1 cup of hot tap water. Keep covered for 15 minutes. For seasoning, add salt and pepper and mix gently.
2. At the same time, add cumin, cayenne, and salt to shrimp to season. Broil the shrimp with the asparagus mixed with oil and seasoned with salt and pepper, 2 minutes each side. Broil until shrimp is opaque throughout and asparagus is tender.
3. After squeezing the juice from the other half of the orange on the shrimp, serve with couscous.

Recipe adapted from Good Housekeeping<sup>ii</sup>

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## Health Tip of the Week



### Kicking the Sugar Habit with a Detox?

Jackie Gleason may have made the phrase “How sweet it is” famous, but medical authorities are saying not so fast, especially in the form of added sugar.

America’s attraction to sweets may not be so healthy. Too high an intake of sugar may lead to a variety of ailments, such as heart disease, diabetes, and obesity.

Recognizing the dietary dangers, some sugarholics go to potentially unhealthy extremes to break their habits.

How about the trendy sugar detox? Will it help you break the habit? Let’s explore the sweet facts.

It’s true that some people crave sugar and use it in excess. But is it an addiction? Probably not. Is it unhealthy at high levels? Definitely.

Sugar fuels brain cells. And people often consume sugary foods as a reward, which tends to rewire your brain by reinforcing the habit.

Consuming sugar, which turns into simple carbohydrates, causes spikes in your blood sugar (glucose) levels.

Your body then works to remove the glucose from your blood. Your pancreas produces insulin. Your blood sugar then plunges, which produces sluggishness and the desire for more sugar to reacquire that sugar high. That leads to more eating. And more eating, naturally, tends to lead to obesity and other weight problems.

So, do detox diets work? Yes and no. Detox diets that remove all food items that may affect blood sugar—fruits, dairy, and refined grain—are too much of a shock on your body. Drastic dietary changes can send you soaring right back into sugar orbit.

What can you do?

Health experts recommend retraining your taste buds by initially eliminating one sugary item at a time. You may explore other “sweet” or healthy options such as berries or low-sugar yogurt.

Kick the habit one step at a time, experts advise. Adding more protein to your diet can also make the transition smoother.

Quitting or controlling the sugar habit may be a struggle at first, but you reap plenty of benefits: a healthier lifestyle, more energy, and weight loss.

## Tips adapted from WebMD<sup>iii</sup>

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<sup>i</sup> <https://www.golfdigest.com/story/flush-it-from-the-rough>

<sup>ii</sup> <https://www.goodhousekeeping.com/food-recipes/easy/a19854680/roasted-cumin-shrimp-and-asparagus-recipe/>

<sup>iii</sup> <https://www.webmd.com/diet/ss/slideshow-sugar-addiction>