July 15, 2008

I found it both sad and ironic when I read that Sir John Templeton had passed away last week due to complications from pneumonia at the age of 95. Templeton, along with Warren Buffett... will long be remembered as simply one of the best pure investors of all time.

The irony of Mr. Templeton's passing is that it comes at a time of high pessimism in the world stock markets. One of Sir John's "Rules of Investing" was, “Don’t be fearful or negative too often”. He gave us a wonderful example of this rule in practice when, in 1939, he negotiated a bank loan and used the money to buy stock in a number of European companies.

Think about the intestinal fortitude this must have taken. The year is 1939... the market crash of 1929 is still fresh in people's minds. The world is just emerging from one of the worst economic depressions in history. A guy by the name of Adolf Hitler is running around Germany doing his thing, which has got the entire European Nation (and eventually... the rest of the world), teetering on the brink of war. You can just imagine now negative the newspaper headlines must have been. But instead of hiding under the bed and waiting for the wolves to come get him, Sir John Templeton is keeping busy by buying pieces of businesses in Europe, with money he has borrowed no less.

Another one of Sir John's rules was to, "Search for bargains among quality stocks". Over the years (as he did in 1939), Templeton found far more of those opportunities when the future outlook for stock markets, on its surface, didn't look so good. It eventually turned out O.K. for Sir John. The world did not end. Life continued to roll along (although there were a few bumps along the way) and Sir John Templeton became a billionaire a number of times over.

Templeton’s passing last week reminded me of that story and I felt it was important to share it with you, as it is one of the legacies that Sir John has left for investors who are following in his footsteps. He taught us that volatility in stock markets is not a reason for well prepared investors to panic. It is an opportunity for well prepared investors to create long term wealth, because current prices for quality businesses are temporarily cheap.

Thank you, Sir John, for showing us the way and making the logic so clear. Rest in peace.
SIR JOHN TEMPLETON'S RULES OF INVESTING

✓ Invest for maximum total real return
✓ Invest - don't trade or speculate
✓ Remain flexible
✓ Buy low
✓ Search for bargains among quality stocks
✓ Buy value, not market trends or the economic outlook
✓ Diversify
✓ Do your homework or hire wise experts to help you
✓ Monitor your investments
✓ Don't panic
✓ Learn from your mistakes
✓ Begin with a prayer
✓ Outperforming the market is a difficult task
✓ Investors who have all the answers don't understand all the questions
✓ There's no free lunch
✓ Do not be fearful or negative too often