Charlie Munger’s “Sit-on-Your-Bum” Approach to Investing Can Yield Market-Beating Results Over the Long Run

Description

Charlie Munger’s “sit-on-your-bum” approach to investing can really help many Canadian investors crush the market over the long haul if they’ve got the discipline and the patience.

The strategy involves finding stocks of high-quality businesses that have a means to grow earnings at an above-average rate over the extremely long term, and pulling the trigger on them whenever the valuation becomes attractive. After that, all you need to do is sit on your bum, forget about your stocks, and let them grow your portfolio over the course of many years.

This “sit-on-your-bum” or “buy-and-hold-forever” strategy only works if you are, in fact, buying the stocks of wonderful businesses at attractive prices. So, it often pays huge dividends to keep a watch list of stocks that you’d love to own, but that may not be attractively valued at a given point in time.

It’s quite rare to spot a wonderful business that’s also trading at a discount to its intrinsic value upon discovering it, after all. As such, there’s no shame in not taking any action and simply adding a stock to your radar, because one day, an attractive entry point will eventually present itself. And with patience, you’ll be able to seize the opportunity. Then comes the really hard part — sitting on your bum!

Why sitting on your bum (holding on for the long haul) has become such a difficult task

In this age, investors buy stocks, only to dump them in a few months down the road for a various number of reasons, many of which have not drastically affected an investor’s long-term thesis. Sitting on your bum, or taking no action, allows your stocks the opportunity to swell your portfolio through capital gains and dividend payments. And more often than not, that’s the best course of action, if you’ve thoroughly done your homework before buying a stock.

Of course, there are many reasons why you may wish to trim your holdings — if a stock gets too frothy, or if a negative development arises, for instance. But most of the time, beginner investors have difficulty telling the difference between noise and a development that will impact one’s long-term thesis. Moreover, a lot of the time, noise is disguised as a detrimental development, which tends to cause an investor to panic and make a rash decision like selling after an event-triggered dip.

Good, old-fashioned “buy-and-hold-forever” or “sit on your bum” investing still works in the day and age of technological disruption; however, one must consider the stocks of wide-moat businesses that have proven they can withstand the test of time. Think stocks like **Canadian National Railway** (TSX:CNR)(NYSE:CNI) and **Fortis Inc.** (TSX:FTS)(NYSE:FTS), which have consistently outperformed the TSX through thick and thin and have typically been known to be rock-solid foundations to any long-term investor’s portfolio.

If you’ve got a blue chip as solid as CN Rail or Fortis, you really don’t need to jump out only to jump in at another point down the road. These are stocks that you can buy and leave in your portfolio for decades without the slightest worry.

Why pay a “professional” money manager a 2% MER to sit on their bum for you?

Just buy a wide-moat stock with a lengthy history of dividend hikes. By not doing anything for years or decades, you’ll allow the businesses the chance to grow and line your pockets with dividends, beating out the average investor that’s likely following the herd — buying high, selling low, and profoundly hurting their long-term results.

Stay hungry. Stay Foolish.

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2. Stocks for Beginners

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