

“NOBODY WASHES A RENTAL CAR”

HOW OWNERSHIP BRINGS GREATER CLARITY TO INVESTING



Summary -

Anyone who has rented a car before has to admit that the care taken for that vehicle is nowhere near that of their own as there is little incentive to mechanically maintain a rental car, this includes keeping it clean. This is because the renter sees no future benefit from washing it as once they return it, they most likely will never see it ever again. On the contrary, a person who actually owns a vehicle has a strong incentive to take care of it as they see the future increase in value that routine maintenance affords its caregiver over the long-term.

In our paper, we hope to make the case that just like people who rent cars have a nonchalant attitude towards that vehicle's upkeep, investors who focus on building portfolios concentrated in mutual funds and ETFs, possess an identical cavalier and whimsical attitude. They simply don't view themselves as business owners.

This mind set is rooted in the collective ownership structure of mutual funds and ETFs. Due to the blended nature of these investment vehicles, investors feel less affinity or ownership to the underlying holdings. It's as if investors feel they are renting investments. This idea is supported by the dramatic change in the average time period that today's investor hold on to stock compared to 50 years ago; eight months versus eight years, respectively.



**50 YEARS AGO,
STOCKS WERE
HELD FOR AN
AVERAGE OF
EIGHT YEARS,
TODAY, THEY'RE
HELD FOR ONLY
EIGHT MONTHS.**

Pride of Ownership -

The old saying of; "Drive it like it's a Rental" is the antithesis of proper investment ownership. If investors see themselves as temporary renters of a collective set of funds, which are purported to represent the so-called market, they do not view themselves as long-term individual owners of a prized asset. The car rental example is a worthy of comparison in that the care and affection taken in renting a car for a day or two is not remotely close to that of owning an automobile we diligently saved tens of thousands of dollars to purchase and tend to keep for many years.

This concept is captured in a reference to Thomas Peters' popular book written in 1985, "A Passion for Excellence" on QuoteInvestigator.com; where Peters validates the concept of the pride of ownership. To read the full article in its entirety use the link below. It does a superb job in retelling a portion of the book that chronicles how a military General greatly enhanced morale by making a team of aircraft mechanics highly productive while taking a greater and newfound pride in their work.

<https://quoteinvestigator.com/2010/06/21/wash-rental/>



FOR INVESTORS, PRIDE IN OWNERSHIP IS COMING TO UNDERSTAND THAT OWNING A STOCK IS THE SAME AS BEING AN OWNER OF THAT BUSINESS.

An excerpt from the website states; “A key case study includes one that analyzes a reorganization of airplane-maintenance staff within the military instigated by General Bill Creech, where he assigns staff to maintain specific planes on a long-term basis instead of shifting personnel between multiple planes.”

The general asked his maintenance staff to view their job as one in which the plane was their “customer,” and more importantly, one in which the supervisor owned the plane. So, what were the results of one viewing the plane on which they were working as one they owned? Amazingly, the crew chiefs took to their new responsibilities with a deep passion, doing whatever was necessary to make their jets the best. They went everywhere with them—on deployments, through inspections, and even to the wash racks. Excellence began to become an obsession. When General Creech went to visit each crew chief to find out how they liked the new arrangement, one Sergeant summed it up nicely. “General,” he said, “When was the last time you washed a rental car?”

We think that says it all, when there’s no ownership, less care and focus on quality are the norm.

Obviously, these crews didn’t own their planes, the US Government did. Yet, they dramatically increased quality and productivity by adopting a motivating sense of ownership. More importantly, they gained pride in ownership, clarity in purpose, and success in their efforts. How powerful is that? Unlike the maintenance crews, today’s investors have lost their way in regards to the concept of ownership and clarity in their investment approach. They fail to realize the concept of ownership is paramount to success.

Instead of viewing their investment portfolios like a business owner, today’s investors act like short-term renters of collective funds that are tossed “to and fro.” Today’s investor is void of conviction as to the components of their “rented” portfolios. When market corrections or natural fluctuations occur, they create a tidal wave of fear, causing them to capitulate and make emotional decisions on important investments they perceive as “rented.” Investors do not possess the rudder of clarity connecting their investing goals with their life goals.

So the question is, “How should a business owner approach this endeavor and why is it important?”

We believe there are three characteristics that all business owners share and that investors should follow as well:



Business Owners – Have a firmly held conviction and knowledge of why they are in business. They have a deep understanding of what they do and why they do it. Investors should take a cue from this concept by having a firm grasp on what they own and why they own it. Research has shown that people who possess a foundational knowledge of what they can and cannot control greatly reduces fear when the unexpected occurs. Investors who view themselves as business owners and who understand what they own and why they own it, joyfully see price declines as opportunities to buy more shares versus fearfully selling an undervalued asset to someone else at a discounted price.



Business Owners – Have a sense of stick-to-itiveness in that when their operation appears to slow or the competition intensifies, they don't quit or give in. It's quite the opposite. They invest back in the resources that made them successful believing the set-back to be a spring-board to the next phase of the business cycle, not a sign of capitulation. Investors should take a cue from this concept by having a firm grasp on the inner workings of each investment in their portfolio and how they function collectively, so that in times of volatility they don't deviate from their plan. It's both understanding the individual components of the companies investors hold and how they relate to one another that is key. Just like vehicle owners know that cars have brakes, tires, batteries, and drivetrains, the more important realization is how they function in allowing the driver to transport themselves from point A to point B.

The driver knows that turning the key will allow the battery to be engaged to start the car which in turn engages the drivetrain to push the car forward, while placing our foot on the brake slows the car allowing it to come to a stop. Investors who see themselves as business owners realize how certain companies in their portfolio may react to changes in the economic cycle in a differing fashion and don't view them independently of one another but see it from a holistic point of view. This prevents investors from selling perfectly sound businesses that may have temporarily dropped in price while other businesses are prospering at the same time. They properly see it as a function of diversification rather than one component being better versus needed or worse and not needed. The driver realizes they need the brakes as much as the battery for the car to function. The astute investor who views themselves as a business owner does the same as it pertains to the various holdings within their portfolio and has a foundational understanding of the inner workings of their portfolios, thus enhancing their pathway to Clarity.



Business Owners – Have a solid understanding of their vision statement and how it acts as a rudder in the decision-making process for everything they do. Investors should act in kind, by envisioning themselves on a purposeful road to clarity, viewing every investment and financial decision in context of its broader meaning and implications to their personal life goals. Going back to our car example, just as the owner of a car realizes the importance of how the individual components function together, so do they understand how the car relates to not only their overall plan of transportation but their overall plan of life. “How far will I drive my car to get to a particular destination before I decide to use air transportation?” “Is my car suited for driving in all types of weather or terrain and if not, how will I decide what other transportation I may need to take?” “How much will I decide to invest in my car as it relates to my overall finances versus that of other areas of my life?” All of these questions have to be weighed as they relate to one’s overall life plan before they can be certain that they are of most benefit to the individual. The astute investor who views themselves as a business owner sees the companies they own in relation to their overall financial plan and how that plan aligns with their own personal moral convictions and ethical values.

Conclusion -

Certainly there are times in life where renting anything from living quarters to a car to equipment is appropriate and some instances a must. Our hope in writing this paper wasn’t to besmirch the positive aspects of renting or those that decide to do so. Even in the investing world, using funds on a temporary basis in the early throws of wealth accumulation is appropriate.

What we do find fault in, is when sophisticated investors fall prey to the short-term mentality fostered by the investment industry that leads to a renting of companies versus owning of companies philosophy. In closing, our firm belief is the foundational concept of business ownership as it relates to investing is paramount in the beginning of one’s journey on the Road to Clarity.

Remember to always Invest With Clarity™



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