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Gardens and Investments

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It's spring planting time in Vermont. I'm not a great gardener, but I enjoy it. I have small raised beds, and I garden with my kids while their iPods are charging. We grow a few vegetables every year, but the chipmunks and rabbits sometimes eat more of it than my family does. While that's frustrating, we do it for the pleasure and not really for the harvest, which is an extra bonus.

Over the years I've learned a few things about successful gardening. First, it helps to have a plan. This includes what I want to harvest versus how much space I have. Second, it requires patience because nothing grows overnight. Third, it requires maintenance. It's in the maintenance stage that I've learned a key lesson – less is more. Nature alone does a pretty good job of growing my plants, although some watering and weeding is necessary. It clearly wouldn't help my harvest if I turned over the whole garden every few weeks because I didn't see any seedlings or became impatient with the growing cycle.

I see similarities between gardens and investments, especially when I'm digging in the spring soil. Planning, patience, and maintenance are all important in managing a set of financial goals. Mess up on one of these and it could significantly reduce your ability to achieve your goals. It's in the area of maintenance that most people veer off track and make mistakes. Emotions take hold during both bad times and good, and people feel the urge to act or to react. For example, chasing yesterday's hot performing investment by selling out a stable holding – at exactly the wrong time.

It's not just individual investors who do this. The average mutual fund manager replaces their entire portfolio every year. That means that these professional managers are holding positions, on average, for less than 365 days. As I said above, my garden wouldn't produce much if I kept replacing my plants. It's the same with active trading. Too much activity is just plain destructive. This is one of many reasons why the majority of active managers perform worse than their benchmark index.

Gardens get flattened by varmints and weather. Financial markets decline. Life changes. Logically, some flexibility is necessary in gardening as well as in investing. But too much handling can be just as hazardous as those uncontrollable events that we all fear so much. Reaching your financial goals takes time, much more than a gardening season. So while I patiently wait for my plants to grow this year, my financial advice will stay the same: focus on your plan, your goals, and on the things that are within your control.

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