

Don't Guess – Just Buy the Whole Chicken

I have written before that investors often choose investments the way that they might shop for a sofa. They just sort of wander around and flip through magazines until something strikes their fancy and they buy it. Not surprisingly, I am not the only one to notice this trait. The marketing people at the big investment and mutual fund companies know it, too. Marketing people know their game, and they know how to lure us to spend our money.

Of the myriad marketing tricks deployed by investment firms, the most common is straight out of a college freshman marketing class. Why sell a whole chicken when you can cut it up into parts, and market the parts to different consumers? Some folks will prefer dark meat, so you market the legs to them. Since the consumer feels better about the purchase, they will pay a little more for it.

In the market for chicken, I suppose people do have actual preferences, and the marketing ploy isn't really taking unfair advantage of anyone. However, the more advanced version of the cut-it-up marketing trick is to convince people that they have a preference even if they do not – or should not.

Investment companies commonly split stock investments into two flavors: growth and value. Here is the pitch for growth stocks: Invest only in companies growing faster than the larger economy. Companies that are launching new and innovative products that will change the world. Rapidly growing firms showing steady quarterly earnings or revenue increases. *We make money in stocks by buying companies that are aggressive, innovative and risk-taking.*

The pitch for value stocks: Only invest in companies that can be bought for a low price relative to their true worth. Companies with strong earnings, cash in the bank, consistent growth and loyal customers. *We make money in stocks by buying great companies on the cheap.*

These stories are told in advertisements and promotional materials. I always chuckle when I see both stories told by the same fund company. After all, one might think that a big investment firm would have a preference between these two styles of investing. Why would a single fund company tell both stories? To sell you funds, that's why.

The growth stock story is directed at people that are risk takers by nature. Type A personalities, entrepreneurs, quick decision makers. Investors that like to believe that they can get rich quickly in stocks.

The value stock story tends to appeal to analytical types, such as professors and scientists. Low-key, thoughtful investors seeking safety and long-term results tend to move toward value investing.

Marketers know all about the personality traits of the two groups of investors, and design advertisements to appeal accordingly. Growth stock ads might have photos of handsome people on yachts holding martinis. Value stock ads might show a retired couple at a grandchild's college graduation. I apologize for any stereotyping here – but I invite you to look closely at some mutual fund ads.

Investment companies take the whole market basket of stocks and cut it up into smaller bundles that will appeal to different consumers. By doing so, they hope to attract investors willing to pay more money to have exactly what they want. They are no different from the people over at Foster Farms.

However, investments are not packaged chicken. Over any given long period of time, there is no advantage to either value or growth stock investing. Arguments made to the contrary generally rely on bad statistics and biased time periods. It all goes in cycles and neither style dominates for very long. With patience, you will achieve solid returns at lower risk by owning both styles. Buy the whole chicken.