

Athena Capital Management Corp.

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Take the long way home

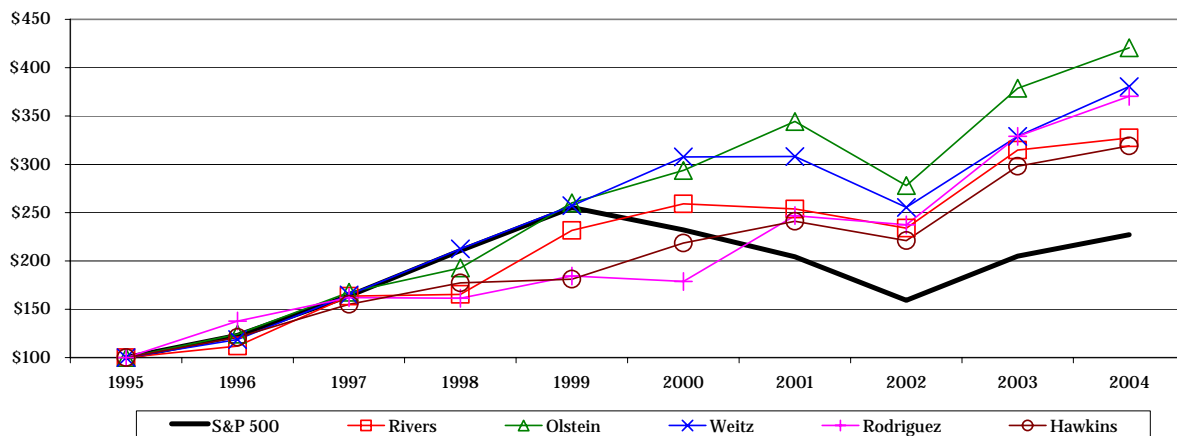
I'd be willing to bet some people in Louisiana and Mississippi are going to be laughing all the way to the bank. For the last 50 years or so, they have chosen to pay for flood insurance. Because so many people see this as a waste of money, their neighbors, friends and relatives have probably been laughing at them. I'm certain they've doubted their choice a hundred times. But now, they will be getting a check from their insurance company that will quickly put their lives back in order, while their uninsured neighbors wait for government aid.

This is a lucid illustration of why it's best to think long term and act on your own judgment. The stock market, too, richly rewards people who think this way. Numerous studies have shown that those who focused on the long run and didn't follow the crowd earned above average returns.

Look at the record. Below is a table that shows the performance of some of my favorite investors (and me) over the last nine years. The first two columns show how the market and each investor did. The next five columns show the percentage of 1, 3, 5, 7 and 9 year periods over which these managers beat the S&P 500.

		% of the time managers beat the market over:				
	Annualized Returns	1 year periods	3 year periods	5 year periods	7 year periods	9 year periods
S&P 500	9.55%					
Rivers	14.09%	67%	71%	100%	100%	100%
Olstein	17.30%	89%	86%	100%	100%	100%
Weitz	16.00%	78%	100%	100%	100%	100%
Rodriguez	15.66%	67%	57%	80%	100%	100%
Hawkins	13.76%	44%	57%	80%	100%	100%

In this table, you can see **my investors only sometimes beat the market in 1 to 3 year periods, but almost always won in 5+ year periods.** Even better, look at the chart below that shows the same information in graphical format.



As this graph illustrates, **my investors frequently looked like slackers in 1 to 5 year periods, but, in the long run, they ended up with significantly more money.**

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Why is it that many investors with great long-term records frequently display mediocre-to-poor 1 to 5 year performance? It's almost impossible to be smarter than the market in the short run. **The best way to beat the market is to think long term and act independently.** Lucky for us, most people focus on the short term and follow the crowd.

If the record is so clear, **why doesn't everybody think long term and act independently?** It's hard. People point and laugh at those who do poorly in the short run. Friends, family and co-workers will give them skeptical glances or question the rationality of such a path. Long term thinkers even doubt themselves on many occasions. It's perfectly natural to feel this way.

In fact, **people seem to be wired to focus on less than 1 year periods.** This makes some sense. Most of what we humans focus on happens within a year. Days go by, the seasons go full circle, crops are planted and harvested, goods are produced and sold, and Christmas comes and goes.

But, there are many things in life that need long term focus. For instance, raising children, building a career, and planning for financial needs all require long range planning and action. I must admit that such long term thinking is tough to keep in mind when opening quarterly statements and wanting to be doing better, *right now!*

Stick to it, though, because **using the right time frame to judge performance is critical to investing success.** As support, countless studies have shown that the leading reason why many people don't reach their financial goals is because they focus on monthly, quarterly, annual and 3-year performance. This short term focus causes many people to panic at some point, and then to move out of their under-performing investments right as they bottom, and into out-performing investments just as they top. That is why they don't reach their goals.

I know this sounds preachy, but the record is clear. **Focus on the long term and act independently.** Don't let that nagging worry in the short term cause you to do something you will regret later. And, feel free to have the last laugh when you reach your goals sooner than those who were laughing at you.

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