The Best Investment Decision I Ever Made

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Bob Weir, CFA: Director of Research

The Best Investment Decision I Ever Made

By Robert Rapier
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It does not seem that long ago, but I made my first foray into the stock market in high school in the mid-1980s. I worked various odd jobs in high school, and I was conscientious about saving money. But I wanted that money to work for me.

Keys to Becoming a Millionaire

I was well-aware of the power of compounding, and I had figured out by the age of 15 that time and compounding should eventually make me a millionaire. I began by making small deposits into a mutual fund, and gradually diversified into several different funds. Then, on Black Monday in 1987, I learned how quickly savings could vanish. It was a good lesson to learn early on because it taught me the value of protecting your downside. But it also forced me to sit down and come up with a long-term strategy for my investments. So I developed a few rules, and I committed to living by them.

I decided that no matter how much or how little money I earned, I would always save at least 10% of my savings. In addition to living within my means, I committed to never having any credit card or other high-interest debt. Most importantly, however, was that I needed a long-term strategy for those savings. I reasoned that with a long time horizon, I did not have to worry so much about the ups and downs of the market. I would not try to time the market, but would rather identify long-term trends and ride those.

Identify Long-Term Trends

I put a lot of thought into where the future was headed. The Baby Boomer demographic loomed large, and I reasoned that, as the Baby Boomers grew older, they were going to shell out a lot of money for health care. As a result, for nearly 30 years I have had at least 20% of my portfolio in the healthcare sector. (For different reasons, I always maintained a similar allocation in the technology sector).

Because people who know me generally associate me with the energy sector, they are often surprised to learn that I have made more money investing in the healthcare sector than in any other sector.

Despite a sharp downturn in the sector in 2015, my healthcare holdings have nearly doubled the performance of the S&P 500 over the past decade. Had I attempted to time the market, I probably would not have done nearly as well. There have been some sharp corrections in the healthcare sector over the years, but the sector always bounced back (given enough time -- more on that below).

The purpose of this story is not to highlight what I consider to be the best investment decision I ever made. Rather, it is to illustrate the importance of identifying long-term trends and sticking with a long-term investment plan.

The Future is Still Bright

The long-term outlook for two of the sectors I identified thirty years ago -- healthcare and technology -- still looks good. The Baby Boomers will continue to drive the healthcare sector, and the world continues to embrace technological advances.

The offspring of the Baby Boomers -- the Millenials -- will soon overtake their parents as the largest demographic. They are more educated and more technologically savvy than their parents, and those factors will influence their purchasing decisions.

Globally, developing countries will continue to drive energy consumption, while embracing emerging technologies such as e-commerce and electric vehicles.

Don't Push Your Luck

All of these trends present enormous investment opportunities. However, you have to keep your time horizon in mind. As I get closer to retirement, my investment objectives are going to change. I will not have as much time to recover from a sector meltdown.

To illustrate, here is the performance of one of my healthcare holdings -- the **T. Rowe Price Health Sciences Fund** (MUTF: PRHSX) -- against the S&P 500 over the past decade:

Although the ten-year performance is well above that of the S&P 500, the three-year performance is not. If I had been three years away from retirement in 2015, investing disproportionately in healthcare would have been costly.

So, keep the risks in mind. Protect your downside, especially as you approach retirement. But if you are investing for the long-term, take some time to study the projected demographic trends over the coming decade or more. Invest accordingly, and profit handsomely.

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