

## Doing Nothing is a Decision

“All of humanity's problems stem from man's inability to sit quietly in a room alone.” - Blaise Pascal

Last year, psychologists from the University of Virginia asked a number of subjects to sit in a room by themselves for a periods of 6 to 15 minutes at a time. They were asked to simply be alone in the room with their own thoughts. It turns out people have a very hard time doing this. Here's what they found:

*In a series of 11 studies, U.Va. psychologist Timothy Wilson and colleagues at U.Va. and Harvard University found that study participants from a range of ages generally did not enjoy spending even brief periods of time alone in a room with nothing to do but think, ponder or daydream. The participants, by and large, enjoyed much more doing external activities such as listening to music or using a smartphone. Some even preferred to give themselves mild electric shocks than to think.*

For most people it's nearly impossible to do nothing these days, because there are so many options available to keep us busy. It's the same thing for investors.

With a six year bull market still going strong we're getting to the point in the cycle where the buy and hold crowd is starting to take a few too many victory laps. I've seen plenty of push-back lately on the subject. People are saying buy and hold investors will be sorry some day when markets crash or go into a bear market.

It's true. Market declines are never easy. But buy and hold as a strategy dies during every bear market and somehow comes back to life with every bull market recovery. The thing is that if buy and hold (or any strategy for that matter) didn't "die" at some point in every cycle, it wouldn't work nearly as well for the true believers.

But I've also heard people say that buy and hold is an easy strategy because it doesn't require the investor to do anything. On the contrary, I think it's much easier to be doing something, anything, at all times, than to be a patient, buy and hold investor. Making constant changes to your portfolio can give an illusion of control. More activity gives investors the feeling they can affect positive outcomes, even if the results don't prove this.

Being busy has become the default move because it absolves investors from thinking long and hard about making better decisions.

Doing nothing is one of the hardest possible decisions you can make as an investor. There is an endless fire hose of information coming at you. There are always new and exciting investment products being released by the financial marketing machine. There's a constant stream of people

making proclamations of bubbles, crashes, bear markets, double dip recessions and melt-ups. Doing nothing in the face of all this along with the market action we see and hear about on a daily basis is a huge challenge for any investor.

Buy and hold investors are basically on an island.

I always say that buy and hold is the worst kind of investing except for all the others. For someone that wants to keep things extremely simple, I can't think of many better ways to invest (assuming you have enough risk controls in place). It's also worth noting that it's false to assume that buy and hold is only reserved for index funds. Buy and hold is strategy agnostic. There are many stock pickers that are basically buy and hold investors who make very few moves each year. It's rare but these types of investors do still exist.

It's also true that many quantitative strategies are more or less buy and hold investors that only rebalance their holdings once a year or so. It can't be easy for those portfolio managers to sit tight and follow their rules when everyone else around them is trading like crazy.

I don't think that buy and hold is perfect. No strategy is. You always have to go in with your eyes wide open and set reasonable expectations with any investment philosophy. But one of the reasons that it works over time is because you basically get out of your own way and do the heavy lifting by making your decisions up front. If you practice a form of buy and hold don't let anyone tell you that it's easy.

Doing nothing is often the hardest move to make in the financial markets.

Source:

[Doing something is better than doing nothing for most people, study shows \(UVA\)](#)

Further Reading:

[Why Does Buy and Hold Have to be Impossible?](#)

Now for the stuff I've been reading this week:

- There's a difference between being patient and waiting ([Pete the Planner](#))
- Josh Brown: "If we know we have something that works, does it make sense to replace it with something that may or may not?" ([Reformed Broker](#))
- How to live a richer, less anxious life ([Abnormal Returns](#))
- The difference between good & bad organizations ([Farnam Street](#))
- Were the 2000s really a lost decade for stocks? ([Irrelevant Investor](#))
- It's time for market forecasters to admit their errors ([WaPo](#)) and How to beat market forecasts ([Portfolio Solutions](#))
- Financial professionals finally admit they have no idea what they're doing ([StockCats](#))

## A Wealth of Common Sense

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- Some hidden gems from Buffett ([Millennial Invest](#))
- The benefits of dampening your overconfidence ([Research Puzzle](#))
- A framework for evaluating investments ([CFA Institute](#))