Compound Interest is Key

For prudent investors, the last three years have meant watching the so-called FAANG stocks (and other speculative shares) rise at a rate that is seemingly unbounded by profits or dividends. The FAANGs have gobbled up an ever-larger portion of the S&P 500 index total market capitalization. Four of the five largest companies in the S&P 500 are now FAANGs.

Today's market environment feels similar to the late 1990s when speculation was dominant. To successfully navigate the environment then, I advised a focus on patience and compound interest.

> *Compound Interest Is the Key*
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> *Legendary investor Phillip Carret used to say that investing genius consisted of one part patience, and one part compound interest. And Charlie Munger, Warren Buffett's long-time partner, will tell you that he is rarely without a compound rate-of-return table. As Munger says, "Understanding both the power of compound return and the difficulty of achieving it is the key to investing."*
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> *If you adhere to a base of value, keep your portfolio turnover low to cut costs and taxes, and rely on the miracle of compound interest, you will set yourself on the safest and surest course to profit both this year and in future years. Craft your portfolio with counterweight building blocks that allow you to ride out the vagaries of the marketplace.*
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> *Last year was the third consecutive year that growth stocks outran value stocks. But remember, growth and value tend to produce similar returns long term. One sector is ahead for a period, then the other has its day. Back in the two-tier market of the early 1970s, growth stocks had a field day at the expense of value stocks. But over the next decade, it was*

> *another matter. Value stocks clobbered growth stocks, and it’s value stock that are cheaper now in 2000.*

The same advice can be given today. Patience and compound interest never go out of style.