

The Coffee Can Portfolio

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Earlier today, I was introduced to the concept of the â??**Coffee Can Portfolio**â?• and it was so fascinating that I decided to share this here as well.

Credits goes to Chong Ser Jing (who runs The Good Investors), who shared this story in our webinar earlier today where we discussed how to invest during these COVID-19 times, as well as debated over several stock ideas â?? some good, some less so. If you missed our webinar and would like to join us for subsequent sessions, be sure to follow me on Facebook where youâ??ll receive an Event Alert for upcoming webinars! The next one is on 6 May 2020 ð???

Kirby was a portfolio manager well-known for his prolific investment writings in financial journals. He was a graduate of both Stanford and Harvard, and then went on to work at a stock brokerage in Los Angeles, before building the rest of his career in the business of investing for retirement.

In 1984, Kirby recounted an incident that massively impacted his investment outlook towards the markets. This has since come to be known as the Coffee Can Portfolio.

What is the Coffee Can Portfolio?

â??The potential impact of thisâ?¦was brought home to me drastically as the result of an experience with one woman client. Her husband, a lawyer, handled her financial affairs and was our primary contact. I had worked with the client for about 10 years, when her husband suddenly died. She inherited his estate and called us to say that she would be adding his securities to the portfolio under our management.

When we received the list of assets, I was amused to find that he had secretly been piggy-backing our recommendations for his wifeâ??s portfolio. Then, when I looked at the total value of the estate, I was also shocked. The husband had applied a small twist of his own to our advice: He paid no attention whatsoever to the sale recommendations. He simply put about $5,000 in every purchase recommendation. Then he would toss the certificate in his safe-deposit box and forget it.

Needless to say, he had an odd-looking portfolio. He owned a number of small holdings with values of less than $2,000. He had several large holdings with values in excess of $100,000. There was one jumbo holding worth over $800,000 that exceeded the total value of his wifeâ??s portfolio and came from a small commitment in a company called Haloid; this later turned out to be a zillion shares of Xerox.â?•

You can read the full paper here.

What is the Coffee Can Portfolio?

Very much like how our grandparents used to keep money in old biscuit tins under the box, people in the West used to do the same, albeit in coffee cans instead.

The idea is simple enough: you construct a portfolio of high-quality stocks for the long run, and simply let them sit.

The costs are extremely low when you donâ??t buy and sell regularly *(if you buy overseas holdings, then you might need to pay your brokerage a monthly custodian fee but thatâ??s just $2 a month)*.

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But the biggest benefit of the coffee can portfolio is that **it keeps your worst instincts and emotions from hurting your investments.**

Thereâ??s no FOMO, no anxiety over volatile share prices, no timing of the market.

> â??You can make more money being passively active than actively passive.â?•

What will you put in your Coffee Can Portfolio?

In times like these where new investors are jumping into the market (brokerage firms have reported a surge in new account openings) with a lot of talk over â??FOMO stocksâ?• like Zoom and Biolidics, it is worth taking some time to really go back to the basics and

The best favour you can do for yourself is to get educated first, and then spend some time analysing the companyâ??s fundamentals instead of just charging in because the share price has dropped, or because your friends or family just bought it as well.

There are so many stocks out there, but you only have a limited amount of cash to invest. How are you going to pick the right (or better) ones if you donâ??t know what youâ??re doing in the first place, and even more so if you donâ??t bother to do your research?

High risks, high returns?

Yes, but at the same time, high risks can also result in high losses. And when you donâ??t know what youâ??re doing, youâ??re taking on *even higher risk* than another investor whoâ??s savvy enough to know why he/she invested in that stock.

Donâ??t count on beginnerâ??s luck in the stock markets.

As for those who have already been investing for quite some time now, it is worth our time thinking about which are the stocks we will put in our â??coffee can portfolioâ?•

With love,
Budget Babe

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