“Two roads diverged in a wood, and I—
I took the one less traveled by,
And that has made all the difference.”

Robert Frost

When poet Robert Frost penned these words in the last century, he captured a world of unexpected discoveries. While we appreciate the romantic aspects of the verse, it also has value as an introduction to contrarian investing.

Many people invest at the wrong time, then sell at the wrong time to buy something else at the wrong time. When you think of the massive capital that poured into glamour growth stocks in early 2000, or gold in 1980 at the peak, or the massive capital that came out of the stock market at the bottom in 2002 to be invested in bonds near their peak, it seems clear that the ‘well-traveled road’ can lead to disastrous losses. Conventional wisdom is not wise, and common sense is not common.

The human character traits that push a declining market down too far, and raise a rising market to prices far in excess of fundamental value are exactly that—human character traits. A whole new science, behavioral economics, is studying the phenomenom. Our investment theory is, if markets tend to excess and people usually buy at the wrong time, taking the road less traveled may make all the difference.

> Certainly, in 2000 when it seemed as if everybody was buying Microsoft-Cisco-Intel-Oracle-Qualcomm and the rest of the tech stocks, one who bought out-of-favor stocks ended up with handsome gains in names like Union Pacific, Berkshire Hathaway, and Commercial Federal—while those tech stocks got hammered.
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> One who bought out-of-favor junk bonds like Level 3 and Calpine at discounts of 30 to 70 cents on the dollar (from 2002-2005) ultimately enjoyed high yields and generous gains.
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> One who bought out-of-favor treasury bonds in 1982 after their worst performance in history, when ‘the death of the bond market’ was on business magazine covers, enjoyed 15% interest for twenty years.

Among the broad market sectors, history shows numerous examples of one year’s worst-performing sector becoming the next year’s best performer—and vice versa. “The first shall be last and the last shall be first.”

There are no guarantees in the investment markets, and past performance does not guarantee future results. Out-of-favor investments may lose value, and what seems cheap may become cheaper. Nevertheless, by choosing the road less traveled, we may increase our possibilities.

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