

Averaging Up

One of the hardest lessons to internalize as an investor is this:

Averaging down usually feels right, but is wrong.

Averaging up feels wrong, but is often right.

This mistake is rooted in human nature.

When a stock falls, buying more feels disciplined. You are lowering your cost. You are going against the herd. After all, you are buying on sale.

But a lower price doesn't mean better value.

On the other hand, buying more of a stock that's gone up feels reckless, like chasing the past, like being the last one to the party.

So most people do the opposite of what works. They double down on their losers and trim their winners.

The investment industry quietly encourages this behavior. "Buy the dip" sounds smart, it is what disciplined investors do.

But here's a better way to think about it.

Invert the problem.

Imagine yourself 20 years from now and a single investment made you wealthy beyond your wildest imagination.

Not just a great return, but a life-changing one.

What did that company look like along the way?

It was rarely a bargain. In fact, it often appeared to be downright expensive, tempting you to sell.

But then management pulled rabbit after rabbit out of their hat. Shrewd acquisitions. Timely share repurchases. New end markets and new customers. Revenues grew dramatically. Margins expanded. They divested non-core assets making the business steadier. The story tightened up and the numbers became cleaner.

So the stock kept grinding higher.

But never in a straight line.

There were drawdowns driven by recession fears, earnings misses and sometimes, real management mistakes. There were many moments where the story was broken.

But none of these were fatal.

Zoom out and you'd see a pattern: ***higher highs and higher lows.***

That's what long-term winners look like.

And if you owned one, the uncomfortable truth is this: the rational thing to do was to average up.

With hindsight, even the "expensive" prices you paid didn't matter. They are cheap now.

That doesn't mean you should pay any price for a good business. That's a different mistake altogether.

The point is what pays off in investing is identifying exceptional businesses early before others have discovered them. And having the courage to add when the business is proving itself, even if the price is higher than where you started.

That's emotionally difficult because it requires ignoring your natural instincts.

But if you are right about management everything else often falls into place.