Executive Summary- Coffee Can Portfolio is an approach to investing wherein one should allocate a part of the investment portfolio to certain stocks/MFs etc. which have a proven track record and impressive performance potential and forget about it. In the long-term, these assets would have appreciated considerably and given optimum returns. It prevents the investor from panicking and selling during volatile periods at lower prices thus also saving transaction costs. It is important to pick the right assets for the method to succeed.

Coffee Can portfolio is a long term approach to investing. During the days of the Wild West in North America people used to save their valuables in a coffee can and keep it under the mattress. Robert Kirby, a money manager in the 1950s introduced the idea of Coffee Can when he realised that his client had built a portfolio for his wife on the basis of his firm’s buy recommendations. He did not pay heed to the sell ideas. The value of this portfolio was very impressive. The Coffee Can approach says that you should buy a group of stocks or mutual funds or any other asset after careful selection and keep them as-is for a long time. In the long term, the right assets would have appreciated considerably and given you great returns. This practice prevents you from panicking during uncertain times or volatility and selling the assets off. Some people want to churn their portfolio and sell off some assets and buy some other assets. Others are impatient and focus on short-term results. This can give less than optimum returns in the long run.

Terence Odean, a behavioural economist along with Brad Barber, professor of finance at University of California wrote a paper titled, 'Trading Is Hazardous to Your Wealth'. They compared the records of people who traded frequently and people who traded less often. They concluded that on an average, the most active traders had the poorer results, while those who traded the least earned the highest returns.

Check the value of these assets -

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<th>ICICI Bank</th>
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<tbody>
<tr>
<td>Date</td>
<td>Stock Price (Rs.)</td>
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<tr>
<td>16 Jan, 2007</td>
<td>168.49</td>
</tr>
<tr>
<td>15 Jan, 2010</td>
<td>191.57</td>
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If an investor had bought any of these assets in 2007 and had forgotten about it for a long time, he would have got a pleasant surprise in 2017.

But it is not enough to buy some assets and forget about them for a long time. This strategy when used blindly will not work. It is important to choose the right assets at the right time.

For example, check the stock price of Tata Steel over the years -

As you can see, if you had bought Tata Steel in October 2007, forgotten about it for close to 10 years and then looked at the share price in January, 2017, you would have not made a great profit. On the other hand, you were with better price in Jan 2010, you would have made better profits. But at the same time, if you had purchased it in October 2007, and sold in Jan 2017, you would have booked a loss.
The Coffee Can Portfolio is a buy and hold strategy. But it is imperative that the buy decision is made with careful research and analysis. The key ideas behind this strategy are -

- The investor must decide which stocks/assets he/she can add to the coffee can. They should be assets with strong business and proven track record with future potential.
- The investor must use it for long-term investments.
- The investor can avoid portfolio churning using it. This saves the investor from panic selling, volatility and incurring transaction costs. Capital Gains taxes can be avoided.
- All stocks/assets cannot be in the coffee can. They have to be a few selected fundamentally sound ones.
- The investor might end up selling blue chip stocks during depression or volatile times in the market. If he keeps some of these bluechip stocks in the coffee can, he can leave them untouched during tough times.
- The Coffee Can should have a diversified portfolio so that risks are reduced. A diversified portfolio should have stocks and funds of businesses that are not correlated.
- One strategy for investors is to look at those sectors or stocks or assets that have reached their bottom or close to their lowest points and buy them if there is potential for an upswing in the long run.

Coffee Can Portfolio method is a great investing method. It brings discipline in your investment strategy. But you have to be careful about the stocks/assets that you want to put in the coffee can. Put a small amount in the coffee can and follow an active investment management policy wherein you are aware of what is happening in the market but need not take knee jerk reactions.

Do let us know your thoughts on the Coffee Can portfolio.

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