

DEBUNKERY

Learn It, Do It, and Profit From It – Seeing Through Wall Street’s Money-Killing Myths

KEN FISHER with LARA HOFFMANS

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MAIN IDEA

To be a successful investor, you have to avoid the common errors most people make repeatedly. Investors usually demand absolutes but they don't exist – even the very best investors are only right about 70 percent of the time. Your goal as an investor shouldn't be to be error-free but to be more right than wrong over time. The majority of investors reverse this dynamic and are wrong more often than they are right. To reduce your error rate, debunk all the conventional investment advice you hear on TV and do your own thinking. Wall Street thrives on the basic misperceptions which investors have about the markets and how they work. To move ahead, be prepared to use your intuition, your gut instincts and your common sense – all the things Wall Street tries to use against you – to decipher conventional wisdom and ultimately make better investment decisions.

Basic bunk which can make you broke

The human brain generates lots of fundamental misunderstandings when it comes to investing. We can't help it and we're not even aware we're doing it. You have to get into your head the thought human ingenuity is boundless and that ingenuity will ultimately show up in the future earnings of firms which, despite the odd setback, will always rise long term. Investing requires grit, discipline and skin as thick as an alligator.

1. Bonds are safer than stocks
2. Well rested investors are better investors
3. Retirees must be conservative
4. Age equals asset allocation
5. You should expect average returns
6. "Capital preservation and growth" is possible
7. Trust your gut
8. One big bear and you're done
9. Make sure it's a bull before diving in
10. Growth is best all the time. No, value. No, small caps
11. A good con artist is hard to spot

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Decoding Wall Street "Wisdom"

Regardless of how they try and window dress things, Wall Street is a concentration of conflicts of interest. Admittedly, Wall Street performs a service by raising the money capitalism needs to work its magic but don't swallow every idea you hear bandied about by Wall Street. Debunk the myths by reminding yourself Wall Street is always full of great products but short on the discipline needed to stay in the game when short-term losses mount.

12. Stop-Losses actually stop losses!
13. Covered calls have gotcha covered
14. Dollar cost averaging – Lower risk, better returns
15. Variable annuities are all upside, no downside
16. Equity-indexed funds are better than normal annuities
17. Passive investing is easy
18. You'll do better with mutual funds
19. Beta measures risk
20. Equity risk premiums make forecasting future returns easy
21. When the VIX is high, it's time to buy
22. Be bullish on high consumer confidence
23. All hail the mighty Dow

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Addressing what "everyone knows"

The investment world is full of rules-of-thumb, truisms and other rules "everybody knows." If you believe investing is easy-to-do by following what everyone else is doing, then you deserve the results you ultimately get. Rules that make intuitive sense never work out in investing because the market discounts widely available information. Think for yourself.

24. So goes January
25. Sell in May
26. Low price/earnings-per-share means low risk
27. A strong dollar is super
28. Don't fight the fed
29. Interest pays dividends
30. Buy a 5% CD for 5% cash flow – easy!
31. When baby boomers retire, the world as we know it ends
32. Concentrate your investments to build wealth

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Learning from history

Admittedly, past performance is no guarantee of future results but it's amazing how much bunk you can offset by checking history. Whenever you hear some fact bandied about, use history to figure out how many times that correlation held true in the past. That should give some worthwhile clues how likely it is that correlation will hold true in the future.

33. Pray for budget surpluses
34. High unemployment is a killer
35. With gold, you're all set for the long haul
36. Stocks love lower taxes
37. Oil and stocks always seesaw
38. Swine flu, ebola and other viruses make markets sick
39. Consumers are king
40. Presidential term cycles are stock market voodoo
41. My political party is best for stocks
42. Stock returns are too high and are unsustainable

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It's a big world

America is the world's biggest economy but it is just under 25 percent of total world GDP. Whether you like foreign stocks or not, sometimes you have to watch out for global bunk theories as well. Try and see the world in context and you'll be a better investor.

43. Foreign stocks just feel kinda foreign
44. Who needs foreign?
45. Big debt is national death
46. America can't handle its debt level
47. America is indebted to China
48. Trade deficits make deficient markets
49. GDP makes stocks grow
50. Terrorism terrorizes stocks

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