

WISE INVESTING MADE SIMPLE

Larry Swedroe's Tales to Enrich Your Future

LARRY SWEDROE

LARRY SWEDROE is a principal and director of research for the Buckingham Family of Financial Services. He is a graduate of Baruch College and New York University. Mr. Swedroe was previously a senior vice president at Citicorp, and later became vice chairman of Residential Service Corporation of America, a residential mortgage company. Mr. Swedroe is the author of several books including *The Only Guide to a Winning Investment Strategy You'll Ever Need*, *What Wall Street Doesn't Want You to Know*, *Rational Investing in Irrational Times* and *The Successful Investor Today*.

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MAIN IDEA

Investing is chock full of myths and incorrect perceptions, wrapped up in an awful lot of hype. Ignore all of that. If you genuinely want to make money, become a passive investor. Put your investment capital into index or mutual funds which reflect the value of the entire stock market. This is the only winning investment strategy there is.

“The way smart money invests today is by building a globally diversified portfolio of passively managed funds (i.e. index funds [including exchange-traded funds] and passive asset class funds) and staying the course, ignoring the noise of the market and the investment propaganda put out by Wall Street and the financial media. Wall Street and the financial media want to keep alive the myth that active investing is the winning strategy. Thus, they fight extremely hard to keep the myths and legends about investing alive. My goal is to kill the legends by exposing them as myths.”

– Larry Swedroe

- ▶ **1 Track records** When investment advisors talk about their track record of success, ask two key questions.
- ▶ **2 Market prices** Never think you can make money by betting against an efficient market. It can't be sustained.
- ▶ **3 Bargain stocks** Always invest as if the market were perfectly efficient. Outstanding performance never persists.
- ▶ **4 Collective wisdom** The collective wisdom of the marketplace is very tough to compete against. Don't even try.
- ▶ **5 The role of chance** It's impossible to tell in advance how investments will perform. Too much is the result of luck.
- ▶ **6 Market hype** Wall Street exists to make you an active trader. The real money is made in passive investing.
- ▶ **7 Prudence** It is more prudent not to play the game of investing than it is to join the crowd and get fleeced.
- ▶ **8 Market insanity** Everyone will tell you to select managers based on historical performance. That does not matter.
- ▶ **9 Market prices** Markets always price stocks at prices that reward risk. Take that into account when investing.
- ▶ **10 The long run** Stocks aren't necessarily less risky if you invest for a long time period. They are always risky.
- ▶ **11 Be selective** Conventional wisdom says buy only those stocks you know. This thinking is wrong.
- ▶ **12 Ignore tips** When someone gives you information, realize this is not really exploitable knowledge. Ignore it.
- ▶ **13 Demographics** When you learn some interesting demographics, don't get excited. The market already knows it.
- ▶ **14 Eggs in one basket** Putting all your investment eggs in one basket is the surest way there is to lose money.
- ▶ **15 Skill vs. luck** A strategy can never be judged as good or poor in advance, only when the outcome is known.
- ▶ **16 Worst enemy** When you try and invest actively, you always end up becoming your wealth's own worst enemy.
- ▶ **17 Passive investing** The winning strategy is always to invest passively. Nothing else even comes close.
- ▶ **18 Beating the market** Even if you know economic events in advance, it's still difficult to beat the market. It can't be done.
- ▶ **19 Ignore forecasts** Even if you have accurate economic forecasts, you'll find the market has already priced them in.
- ▶ **20 Ignore the gurus** Gurus don't know any more than you do. Your guess is as good as theirs. Don't bother with them.
- ▶ **21 Indexing is smart** The only winning investment strategy over the long term is to accept the market returns.
- ▶ **22 Not entertainment** Sound investment strategy and practice is never entertaining. It's downright boring.
- ▶ **23 Big rocks** Focus on the important things in life. Tune out all the background noise generated by the markets.
- ▶ **24 Separate account** If you need to get excitement from your investments, set up a special "entertainment" account.
- ▶ **25 Your portfolio** To set up a portfolio, decide what kind of investor you are and invest accordingly.
- ▶ **26 Active vs. passive** If you'd been a passive investor for the past twenty-five years, you would have done fine.
- ▶ **27 Financial advisors** Look for advisors who have technical competence and integrity. Only work with people you trust.

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