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Think, Act and Invest Like Warren Buffett

At a recent client event we discussed this new book by Larry Swedroe. He says it's the winning strategy to help you achieve your financial and life goals. An easy four hour read, Swedroe shows you how adopting some basic principles can help you outperform the vast majority of investors. Here are some of the points in the book we thought we'd highlight for you - Myron's comments are in parentheses :

(For the full four pages of our outline/notes, just call or email Keith.)

Market price already reflects all publicly available information - market adjusts immediately.

Ignore news - acting on it is counterproductive.

Never sell just because of market declines - no matter how large. Once you sell, you are doomed to fail. (You don't lose money when the market goes down; you lose when you're out of the market when it goes back up.)

Financial media and Wall Street want and need you to "tune-in" and play the game of active investing. They make money by charging high fees. The winning strategy for them is the losing strategy for you.

Those who trade the most performed the worst.

Security selection and market timing - superior past performance has no predictive value - cannot differentiate between skill and luck.

Lowest cost funds produced highest returns - index funds outperform most professionals.

Active management is a loser’s game - surest way to win is to refuse to play.

ETFs are essentially mutual funds that trade like stocks throughout the day.

Diversification is the only free lunch in investing - eat a lot of it.

Wall Street makes a lot of money selling commodities, private equity, venture capital, hedge funds, junk bonds, emerging market bonds, convertible bonds, preferred stocks and structured investment products - you don't need them to develop a well-diversified portfolio or to achieve your goals.

(A well designed portfolio effectively diversifies industry risk and company risk by holding 20 U.S. stocks in 20 different industries. The other 40% of portfolio risk (market risk) cannot be diversified.)

(FORGET "ASSET CLASSES" - THINK "INDUSTRIES")

Reasons to hire a financial advisor:
1) Develops an investment plan and integrates it with your estate, tax and retirement plans and then provides ongoing care and maintenance.
2) Determines proper asset allocation and appropriate risk tolerance.
3) Knowledgeable about financial history and expected returns - so as not to repeat past mistakes.
4) Has the temperament and the emotional discipline to adhere to a plan in the face of crisis. Has the fortitude to withstand a severe drop in your portfolio without panicking. (Fear can often lead an individual into paralysis or panicked selling and the abandonment of well-developed plans). Protects you from having your emotions take control of your portfolio.

Criteria to look for when choosing a financial advisor:
1) Fiduciary standard of care - must always act in your best interests. Require a fee-only advisor - this avoids conflicts that commission-based compensation can create. The only thing being sold is advice and solutions to problems, not products.
2) Review the firm's ADV disclosure statement for the firm's investment strategy, fee schedules and regulatory incidents.
3) Find out where the advisor invests his personal assets - the investment vehicles he recommends to his clients should be the same.
4) Work with a firm whose investment strategy and advice is based on the science of investing - not on opinions.

Prudent investing rules that will give you the greatest chance of achieving your financial goals:
1) Do not take on more risk than you have the ability, willingness, or need to take - stick to your plan!
2) Never invest in anything unless you fully understand the nature of all the risks.
3) The more complex the investment, the faster you should run away - they are designed to be sold, not bought.
4) Risk and return are not necessarily related; risk and expected return are related.
5) If a security has a high yield, you can be sure the risks are high even if you cannot see them.
6) A well-designed plan is necessary for successful investing, but you must also have the discipline to stay the course, rebalance, and tax-manage as necessary.
7) Investment plans must be integrated into well-designed estate, tax, and risk-management plans.
8) Do not treat the highly improbable as impossible or the highly likely as certain. Just because something has not happened, doesn't mean it cannot or will not.
9) The strategy to get rich can be different from the strategy to stay rich.
14) The five most dangerous investment words are "This time it is different".
15) The market can remain irrational longer than you can remain solvent.
16) If it sounds too good to be true, it is. The only free lunch in investing is diversification.
17) Never work with a commission-based investment advisor.

19) Hope is not an investment strategy - base your decisions on the evidence from peer-reviewed academic journals or a trusted advisor.
21) There is nothing new in investing, just the investment history you do not know.
22) Lastly, remember good advice does not have to be expensive; but bad advice always costs you dearly, no matter how little you pay for it. Smart people do not choose the cheapest doctor or the cheapest CPA. Cost matters, but it is the value added relative to the cost of the advice that ultimately is most important.

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