10 Tips For Stock Investing

From Sam, Johnny, and Derek

INVEST LIKE A BOSS

1. **Don't pick stocks** – historically, picking stocks is a very bad idea. Most of us do it, but statistically you are much better off to just invest in broad, passive low fee index funds like Vanguard Total Stock Market Index **(VTI)**. Over the last 20 years, 85% of active fund managers (professional stock pickers) underperform the S&P 500... and since you are not a professional fund manager if you are reading this, you are not likely to have any information advantage over them. We recommend only investing in broad, diversified stock indexes.

2. **You don't need an advisor** – The biggest value that financial advisors bring, is that they typically give you the confidence to start investing (earlier the better) and are there to help you avoid a financial disaster in the form of selling your stocks when the market goes down. However, most financial advisors will invest you in a diversified collection of mutual funds, which can easily be replicated in low fee, passive index funds such as Vanguard. Doing it yourself is not difficult, but it does take a commitment in learning and understanding market cycles. Doing so is one of the best investments in yourself you will ever make.

3. **Low fees are key** – ruthlessly look for ways to reduce fees from your bank, advisor, and the actual funds that you are invested in. Financial advisors commonly charge you a 1% management fee, and put you in mutual funds that charge another 1%, for a total of 2%! By comparison, Vanguard's S&P 500 ETF's expense ratio (annual fee) is just .03%... which is basically free. By numbers, if you invest $12,000 annually, and have an annual return of 8%, you will have $1.41m after 30 years. If you make 9% instead of 8%, you will have $1.7m. So that tiny, understated 1% fee, ends up costing you $300,000, or $10,000 a year.

4. **Get started early** – Since its 1926 inception through 2018, the S&P 500 has returned an average of 10% per year. Your money doubles every 10 years at a 7% annual return, every 9 years at an 8% return, and in just 7 years at a 10% return. Start investing as early as possible, and put your money to work for you. If you have already started, help someone young in your family get started.

5. **The best portfolio is the one you keep** – beyond having international diversification in stocks, don't overthink your portfolio allocation. You can have 2 funds, or 15 funds (and anything in between), growth or value, large cap or small cap focus, etc. There is data to suggest historically what the best performing portfolio looks like, but what's more important is that whatever you choose, you are comfortable with. Fidelity did a study and found that their clients that had the best performance were the ones who were either a.) deceased, or b.) had forgotten they had an account. The reason is clear... they invested, and didn't mess with it, letting it grow and compound through many years and market cycles.

6. **This is a Long Term investment** – when you invest in stock index funds, you need to go into with the mindset that this is a 20+ year investment (i.e. your retirement). Sure, it is a highly liquid investment that you can sell in a day if needed. But it's a bad idea to have a short-term mindset. This is the investment in which it takes 10+ years to see compounding interest start to give you exponential gains (Einstein called this the 8th wonder of the world).

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7 **Don't have home-country bias** – most people tend of have home country bias when selecting stock investments. That means if you are from the USA, you have the majority of your portfolio in US stocks, if you are from the UK, you have the majority in UK stocks, and so on. We recommend having 50% in the US stock market, and 50% in all other (international) markets. This is easy to accomplish by buying both a US focused and an International focused index fund.

8 **The best market timing is total market timing** – it is next to impossible to try to time the market (i.e. wait for it to drop before investing). As the market goes up over time, you are more likely to miss out on significant gains, than to get the market timing correct. The best market timing, is total market timing... meaning, get your money into the market as early as possible and let it grow for as long as possible.

9 **Lump Sum Investing beats Dollar Cost Averaging** – have you just had a windfall from selling your house or liquidating a business? You can either invest all that money now in a lump sum, or invest it evenly over a duration (called Dollar Cost Averaging). The reason to DCA is in case the market drops during that duration, you invest your money at a cheaper price. For most people, this brings more comfort... and thus, the DCA strategy is like buying insurance. Research has been conducted, and historically, the DCA approach will cost you approximately 1.25% in performance. This is a personal decision, but statistically you are better off to invest immediately as a lump sum instead of waiting or taking the DCA approach.

10 **Make your investments automatic** – once you have your investing strategy set, make your investments automatic. If you wait until the end of the year to allocate money to invest, you are likely to skip years, or buy goods (even liabilities) instead of investing. We recommend setting up a recurring money investment that pulls straight from your bank, and invests directly into your index funds. A monthly interval is the best to get money in early and ensure you are prioritizing investing in your future.

***Pro Tip** - Don't be afraid to invest in the market just because it is at time highs. The global stock market spends most of its time at, or near all-time highs. This is because, historically the market goes up over time, driven by population growth, capitalism as the dominate economic system, increasing labor efficient (i.e. tractor, internet), and the expansion of the money supply. If you didn't invest in the market in 2015, because it was at an all-time high, you've missed out on a 2x return.*

Listen Take a listen to these two episodes that we have published specifically on investing in index funds:

Buying stocks and index funds for newbies

International Allocation (index funds 202)

We hope you enjoyed this PDF! Take a listen to our new episodes, published each week at Invest Like a Boss.

Other Resources

Boss Lounge – our free, private Facebook group to discuss investments

Patreaon – join for just $5/ mo to support the show and get access to our portfolios

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