Investing Can be Easy—Yes, Really

By Bob Adams

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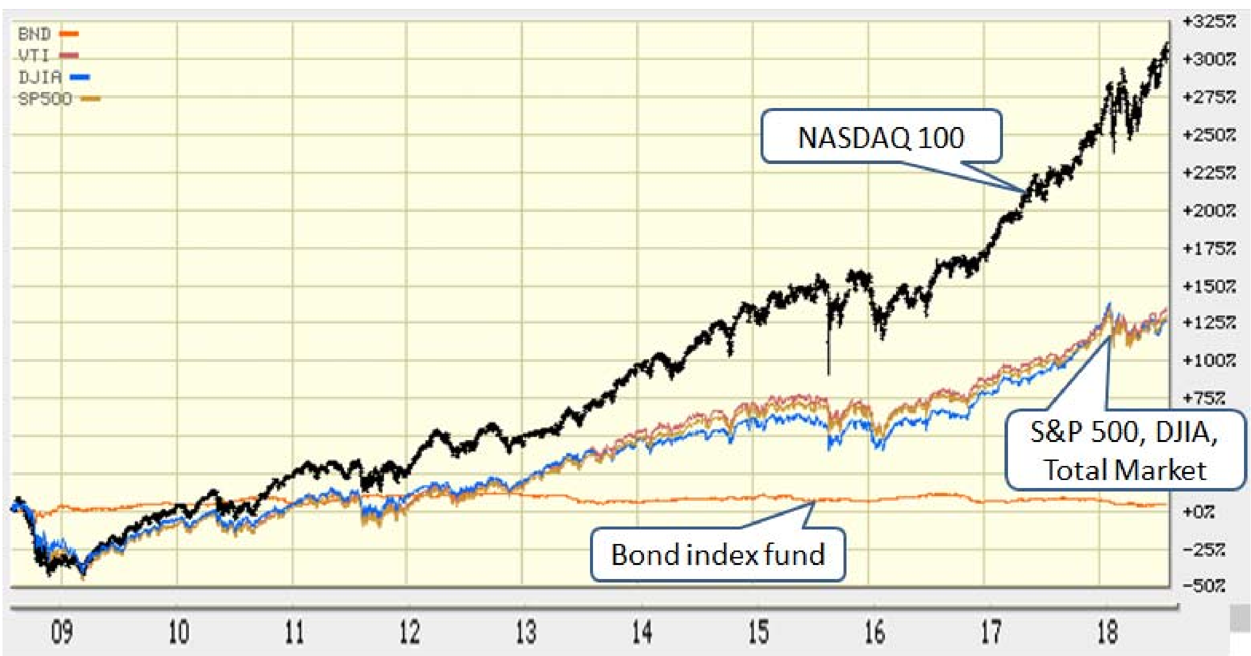
I've been investing in the stock market for over fifty years and have done well by following the teachings of Better Investing. I highly recommend you do the same. However there are many of you who don't find investing fascinating or don't have the time nor interest to learn the BI methodology—for various reasons. Let's accept that and find a way to help the less interested to invest, and invest well. And, yes, it really is easy.

Don't believe those who tell you investing is hard, that you need professional advice, the risk in the stock market is too high, and the small investor cannot be successful. Don't believe that regardless of the purpose of your investment—retirement, education for children or grandchildren, or any other reason. The purpose of this article is to illustrate (1) investing in the stock market is not hard, (2) professional advice is not needed, (3) the risk is reasonable, and (4) the small individual investor can do well.

Let's address those thoughts one at a time. (1) How can we make it easy? Invest in an index fund—one of the standard indices—like the S&P 500, Dow Jones Industrial Average, Total Market, or NASDAQ 100. Select one and stay with it long term. And if the market fluctuations unnerve you, put a small percentage (20% to 30%) in a Bond index fund to add some stability. You'll sacrifice growth, but likely steady the total value during downturns. Each of these indices will offer diversity and likely a good total return. During the past ten years, through July 2018, the first three have returned 125%, and the NASDAQ 100 over 300%. Over the same period the bond index fund returned 2%. Notice in the accompanying chart the bond index was stable and maintained it's value during the market downturn in 2009 but the total return was poor throughout the period. Personally I'd ignore adding stability for the future growth offered by equities. Simply do nothing during the downturns—or use them as a buying opportunity.



To see an updated chart of this information type this link into your Internet browser:
https://tinyurl.com/10-Yr-TotalReturn

After investing in any of these indices during this period, except for the Bond index, the total return was reasonable—and the NASDAQ 100, outstanding. The point is, if invested in any one of the equity indices you would have done well. (Note: this chart shows Total Return, which includes dividends and interest. Many charts only show the price growth or decline and therefore don't provide an accurate picture. Charts from brokerage houses normally fall into that category, indicating price change only.)

(2) Professional advice isn't needed if you dollar cost average into any of these indexes with an automatic withdrawal from your pay check, for example. If you already have a portfolio, move into an index fund over a period of time. As a matter of fact, you don't want professional advice as it's likely to be confusing, and costly. Warren Buffett recommends index investing, along with many others, but most brokers do not. Very low fees and turnover combine to reward you, not the broker.

(3) Risk is reasonable over the long term. The risk is high if investing on a short term basis. Expect to invest for seven to ten years as a minimum so the risk becomes reasonable. Look at the chart to observe the market has only gone up over the long term. On a short term basis it may have dropped for limited periods of time, then resume its upward climb. Look upon price drops as buying opportunities.

(4) The small investor can do well without professional advice if she/he learns to invest well. That means learn to use the Better Investing methods, follow the teachings and beat the market averages—the index funds. But if that isn't of interest to you it's possible to do well simply by buying an index fund, but stay with these "standard" funds described here. Index funds beat managed funds almost every year, largely because of managed fund expenses and high turnover, creating fees and taxes the investor must pay. Remove those high expenses and enjoy good returns with an index fund.

Don't let someone tell you investing in the stock market is hard or dangerous. I hope you realize after reading this that it doesn't need to be hard or dangerous to achieve a good return on your long term investment.

Who is *Bob?* I'm a volunteer for Better Investing, a non-profit organization with a goal to help educate investors; a former Director on the BetterInvesting® national Computer Group Advisory Board, and Director Emeritus for the Puget Sound Chapter of BetterInvesting in Seattle, Washington.