50 Unfortunate Truths About Investing

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Sorry, but ...

1. Saying "I'll be greedy when others are fearful" is much easier than actually doing it.

2. The gulf between a great company and a great investment can be extraordinary.

3. Markets go through at least one big pullback every year, and one massive one every decade. Get used to it. It's just what they do.

4. There is virtually no accountability in the financial pundit arena. People who have been wrong about everything for years still draw crowds.

5. As Erik Falkenstein says: "In expert tennis, 80% of the points are won, while in amateur tennis, 80% are lost. The same is true for wrestling, chess, and investing: Beginners should focus on avoiding mistakes, experts on making great moves."

6. There are tens of thousands of professional money managers. Statistically, a handful of them have been successful by pure chance. Which ones? I don't know, but I bet a few are famous.

7. On that note, some investors who we call "legendary" have barely, if at all, beaten an index fund over their careers. On Wall Street, big wealth isn't indicative of big returns.

8. During recessions, elections, and Federal Reserve policy meetings, people become unshakably certain about things they know nothing about.

9. The more comfortable an investment feels, the more likely you are to be slaughtered.

10. Time-saving tip: Instead of trading penny stocks, just light your money on fire. Same for leveraged ETFs.

11. Not a single person in the world knows what the market will do in the short run. End of story.

12. The analyst who talks about his mistakes is the guy you want to listen to. Avoid the guy who doesn't -- his are much bigger.

13. You don't understand a big bank's balance sheet. The people running the place and their accountants don't, either.

14. There will be seven to 10 recessions over the next 50 years. Don't act surprised when they come.

15. Thirty years ago, there was one hour of market TV per day. Today there's upwards of 18 hours. What changed isn't the volume of news, but the volume of drivel.

16. Warren Buffett's best returns were achieved when markets were much less competitive. It's doubtful anyone will ever match his 50-year record.

17. Most of what is taught about investing in school is theoretical nonsense. There are very few rich professors.

18. The more someone is on TV, the less likely his or her predictions are to come true. (U.C. Berkeley psychologist Phil Tetlock has data on this).

19. Related: Trust no one who is on CNBC more than twice a week.

20. The market doesn't care how much you paid for a stock. Or your house. Or what you think is a "fair" price.

21. The majority of market news is not only useless, but also harmful to your financial health.

22. Professional investors have better information and faster computers than you do. You will never beat them short-term trading. Don't even try.

23. How much experience a money manager has doesn't tell you much. You can underperform the market for an entire career. And many have.

24. The decline of trading costs is one of the worst things to happen to investors, as it made frequent trading possible. High transaction costs used to cause people to think hard before they acted.

25. Professional investing is one of the hardest careers to succeed at, but it has low barriers to entry and requires no credentials. That creates legions of "experts" who have no idea what they are doing. People forget this because it doesn't apply to many other fields.

26. Most IPOs will burn you. People with more information than you have want to sell. Think about that.

27. When someone mentions charts, moving averages, head-and-shoulders patterns, or resistance levels, walk away.

28. The phrase "double-dip recession" was mentioned 10.8 million times in 2010 and 2011, according to Google. It never came. There were virtually no mentions of "financial collapse" in 2006 and 2007. It did come.

29. The real interest rate on 20-year Treasuries is negative, and investors are plowing money into them. Fear can be a much stronger force than arithmetic.

30. The book *Where Are the Customers' Yachts*? was written in 1940, and most still haven't figured out that financial advisors don't have their best interest at heart.

31. The low-cost index fund is one of the most useful financial inventions in history. Boring but beautiful.

32. The best investors in the world have more of an edge in psychology than in finance.

33. What markets do day to day is overwhelmingly driven by random chance. Ascribing explanations to short-term moves is like trying to explain lottery numbers.

34. For most, finding ways to save more money is more important than finding great investments.

35. If you have credit card debt and are thinking about investing in anything, stop. You will never beat 30% annual interest.

36. A large portion of share buybacks are just offsetting shares issued to management as compensation. Managers still tout the buybacks as "returning money to shareholders."

37. The odds that at least one well-known company is insolvent and hiding behind fraudulent accounting are high.

38. Twenty years from now the **S&P 500** will look nothing like it does today. Companies die and new ones emerge.

39. Twelve years ago **General Motors** was on top of the world and **Apple** was laughed at. A similar shift will occur over the next decade, but no one knows to what companies.

40. Most would be better off if they stopped obsessing about Congress, the Federal Reserve, and the president and focused on their own financial mismanagement.

41. For many, a house is a large liability masquerading as a safe asset.

42. The president has much less influence over the economy than people think.

43. However much money you think you'll need for retirement, double it. Now you're closer to reality.

44. The next recession is never like the last one.

45. Remember what Buffett says about progress: "First come the innovators, then come the imitators, then come the idiots."

46. And what Mark Twain says about truth: "A lie can travel halfway around the world while truth is putting on its shoes."

47. And what Marty Whitman says about information: "Rarely do more than three or four variables really count. Everything else is noise."

48. The bigger a merger is, the higher the odds it will be a flop. CEOs *love* empire-building by overpaying for companies.

49. Investments that offer little upside and big downside outnumber those with the opposite characteristics at least 10-to-1.

50. The most boring companies -- toothpaste, food, bolts -- can make some of the best long-term investments. The most innovative, some of the worst