25 important things to remember as an investor

Description

1. The intrinsic value of the stock market as a whole increases by about 1% every six weeks. That's what you'll get over the long term. Everything else is noise.

2. Several academic studies have shown that those who trade the most earn the lowest returns. Remember Pascal's wisdom: "All man's miseries derive from not being able to sit in a quiet room alone."

3. The single best three-year period to own US stocks was during the Great Depression. Not far behind was the three year period starting in 2009, when the US economy struggled in utter ruin. The biggest returns begin when most people think the biggest losses are inevitable.

4. Economist Alfred Cowles dug through forecasts a popular analyst who "had gained a reputation for successful forecasting" made in *The Wall Street Journal* in the early 1900s. Among 90 predictions made over a 30-year period, exactly 45 were right and 45 were wrong. This is more common than you think.

5. There is virtually no correlation between what the economy is doing and stock market returns. According to Vanguard, rainfall is actually a better predictor of future stock returns than GDP growth. (Both explain slightly more than nothing.)

6. The *Financial Times* recently wrote: "In 2008, the three most admired personalities in sport were probably Tiger Woods, Lance Armstrong, and Oscar Pistorius." Given the volume of recent insider trading charges, something similar could occur among the investing "greats."

7. There are no investment points awarded for difficulty or complexity. Simple stocks can make outstanding investments.

8. 90% of Warren Buffett's success can be explained by three factors: Patience, compound interest, and time.

9. All bubbles begin with a rational idea that gets taken to an irrational extreme. That's why so many

people fall for them.

10. How long you stay invested for will likely be the single most important factor determining how well you do at investing.

11. According to Longboard Asset Management, from 1983 to 2007, 40% of US stocks were unprofitable, 19% lost at least three-quarters of their value, 64% underperformed the market, and 25% were responsible for all the market’s gains. Statistically, successful stock-picking is more about avoiding awful investments than finding good ones.

12. There were 272 automobile companies in 1909. Through consolidation and failure, three emerged on top, two of which went bankrupt. Spotting a promising trend and a winning investment are two very different things.

13. In hindsight, everyone saw the US financial crisis coming. In reality, it was a fringe view before mid-2007. The next crisis will be the same (they all work like that).

14. Management fees, transaction costs, and taxes are the bane of investment returns.

15. You are under no obligation to read or watch financial news. If you do, you are under no obligation to take any of it seriously.

16. Investor Dean Williams once said, “Confidence in a forecast rises with the amount of information that goes into it. But the accuracy of the forecast stays the same.” We’re looking at you, Wall Street analysts.

17. When you think you have a great idea, go out of your way to talk with someone who disagrees with it. At worst, you continue to disagree with them. More often, you’ll gain valuable perspective. Fight confirmation bias like the plague.

18. Daily market movements are driven by people with short investment horizons. Are you a long-term investor? Then nothing they do applies to you. Ignore it.

19. Someday we will look back at financial advisors who don’t have a fiduciary duty as one of the most harmful oxymorons of all time. Always make sure you understand the incentives of the advisor sitting on the other side of the table.

20. Take the highest level the S&P 500 traded at in every decade going back to 1880. At some point during the subsequent 10 years, stocks fell at least 10% *every single time*, with an average decline of 39%. Market crashes are perfectly normal.

21. To paraphrase Motley Fool member TheDumbMoney, companies that have antagonistic relationships with their regulators probably want to engage in behavior that won’t benefit their long-term shareholders. Bear Stearns and Lehman Brothers fought hard for permission to use more leverage. It killed them.

22. Remember what Wharton professor Jeremy Siegel says: "You have never lost money in stocksover any 20-year period, but you have wiped out half your portfolio in bonds [after inflation]. So which isthe riskier asset?"

23. People talk about market averages — average P/E ratios, average annual returns — but historically, markets rarely trade anywhere close to averages. Stocks are typically swinging between far undervalued or far overvalued, crashing or surging. The middle ground we think of as "normal" is a rarity.

24. The best company in the world run by the smartest management can be a terrible investment if purchased at the wrong price.

25. The single most important investment question you need to ask yourself is, "How long am I investing for?" How you answer it can change your perspective on everything.

The Motley Fool has no positions in the stocks mentioned above.

A version of this article, written by Morgan Housel, originally appeared on fool.com.

CATEGORY

1. Investing

Category

1. Investing

Date
2025/07/19
Date Created
2013/04/08
Author
motley-fool-staff