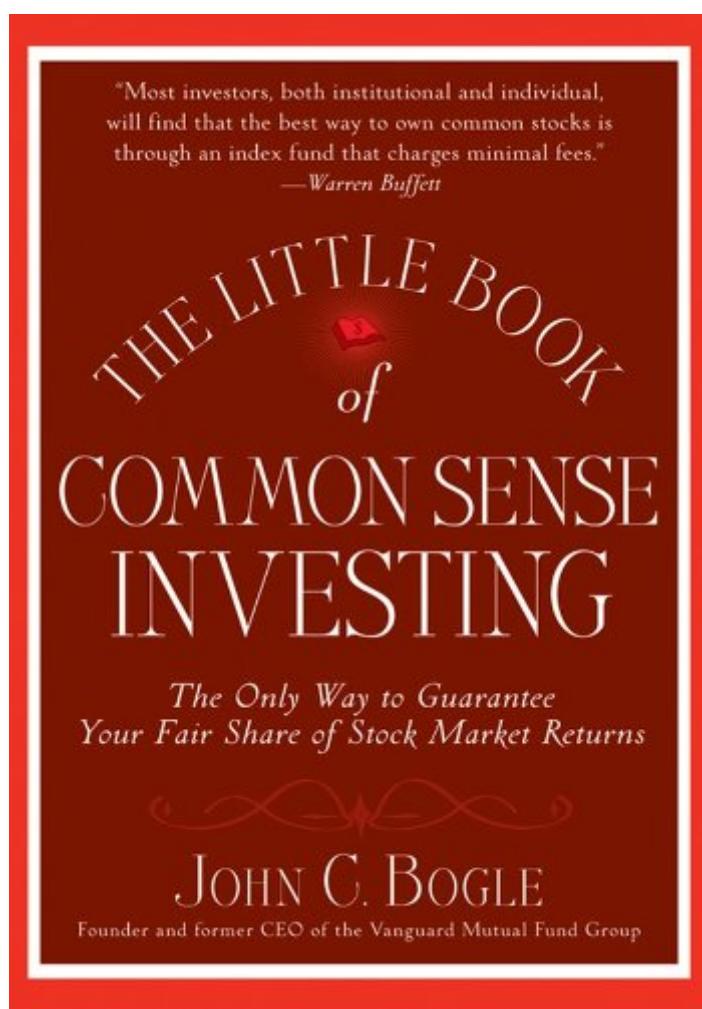


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The Little Book Of Common Sense Investing: The Only Way To Guarantee Your Fair Share Of Stock Market Returns (Little Books. Big Profits)



Synopsis

There are a few investment managers, of course, who are very good – though in the short run, it's difficult to determine whether a great record is due to luck or talent. Most advisors, however, are far better at generating high fees than they are at generating high returns. In truth, their core competence is salesmanship. Rather than listen to their siren songs, investors – large and small – should instead read Jack Bogle's *The Little Book of Common Sense Investing*. • Warren Buffett, Chairman of Berkshire Hathaway, 2014 Annual Shareholder Letter. Investing is all about common sense. Owning a diversified portfolio of stocks and holding it for the long term is a winner's game. Trying to beat the stock market is theoretically a zero-sum game (for every winner, there must be a loser), but after the substantial costs of investing are deducted, it becomes a loser's game. Common sense tells us – and history confirms – that the simplest and most efficient investment strategy is to buy and hold all of the nation's publicly held businesses at very low cost. The classic index fund that owns this market portfolio is the only investment that guarantees you with your fair share of stock market returns. To learn how to make index investing work for you, there's no better mentor than legendary mutual fund industry veteran John C. Bogle. Over the course of his long career, Bogle – founder of the Vanguard Group and creator of the world's first index mutual fund – has relied primarily on index investing to help Vanguard's clients build substantial wealth. Now, with *The Little Book of Common Sense Investing*, he wants to help you do the same. Filled with in-depth insights and practical advice, *The Little Book of Common Sense Investing* will show you how to incorporate this proven investment strategy into your portfolio. It will also change the very way you think about investing. Successful investing is not easy. (It requires discipline and patience.) But it is simple. For it's all about common sense. With *The Little Book of Common Sense Investing* as your guide, you'll discover how to make investing a winner's game: Why business reality – dividend yields and earnings growth – is more important than market expectations How to overcome the powerful impact of investment costs, taxes, and inflation How the magic of compounding returns is overwhelmed by the tyranny of compounding costs What expert investors and brilliant academics – from Warren Buffett and Benjamin Graham to Paul Samuelson and Burton Malkiel – have to say about index investing And much more You'll also find warnings about investment fads and fashions, including the recent stampede into exchange traded funds and the rise of indexing gimmickry. The real formula for investment success is to own the entire market, while significantly minimizing the costs of financial intermediation. That's what index investing is all about. And that's what this book is all about.

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Customer Reviews

John Bogle created the world's first index fund in 1975. In this book, he describes why you should make index funds the core of your investment portfolio. Bogle starts off with introducing index funds through a parable that describes how middle-man costs in finance eat away at investors' profits. He discusses why speculation doesn't work and why business reality (in his definition, dividend yields plus earnings growth) is more important than market expectation (changes in P/E based on what investors are willing to pay for various equities). Bogle spends a few chapters discussing various problems with regular actively managed mutual funds, covering issues with performance (he asserts that less than 1% of all mutual funds were able to beat the market consistently over the past half century), various costs (expense ratios, sales charges, advertising fees, turnover costs, tax implications), poor market timing, and finally the difficulty of choosing a mutual fund (he states that there's no good way to pick a fund, since we can't foretell the future, and past performance is not an indicator of what's to come). He brings the reader to the "common sense" conclusion that index funds, in their pure simplicity, are the logical choice for any investor, as they provide the diversified return of the entire market with minuscule fees and minimal effort. The last few chapters cover bond

funds, ETFs, and a few pages of investment advice - which boils down to keeping at least 50% (if not all) of your money in broad-market index funds. Interestingly, Bogle spends a chapter discussing what Benjamin Graham would have thought about index funds, citing various quotes from Graham's "The Intelligent Investor" and certain blurbs from Warren Buffet.

Who better to make a straightforward argument for the index mutual fund than the man who developed the first of its kind for Vanguard in 1975. The stock market offers the return of the businesses it represents to investors. These returns are not received, because rather than 'buying' the market with a fund that tracks those returns, investors are sold actively managed funds that try to outperform the market and in the end dilute those returns with crippling fees and costs from excessive trading. The argument has been made by other distinguished writers in recent years, but investors will find this industry giant's take on the matter forceful. What's new is Bogle's sobering expectations for future market returns. Over the past century companies have produced a 4.5% dividend yield and a 5% earnings growth rate (9.5%) for investors - before actively managed fund costs have stripped away much of that wealth. Today dividend yields on equities are under 2%. Earnings growth rates in the future may or may not be lower than the historical average. What seems apparent is that investors are less willing to pay for those earnings than they have in the past - as measured by a decline in price earnings ratios. Bottom line: we may be looking at a period of market returns of just 7-8%, and after all the "intermediary" costs of the mutual fund industry, investors will see that return dramatically reduced. This is why costs matter. The index mutual fund is the least expensive way to get the market's return into your pocket. Unfortunately, many 401 (k) retirement plans do not include some of the key U.S. and international indexes recommended by Bogle.

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