Quotes from William J. Bernstein's book -

"The Investor's Manifesto – Preparing for Prosperity, Armageddon, and everything in Between"

I recently purchased this book and recommend it highly. It is an easy and insightful read. To give you a flavour of its contents and language, below are some quotes from it, as collected by Taylor Larimore. George Luste, October, 2009

A brief bio of the author. - William J. Bernstein, PhD, MD, is a bestselling author known as a grassroots hero to independent investors. Formerly a practicing neurologist, Bernstein approaches the problems of saving and investing as someone who had to figure it out for himself—from first principles up. He is the author of The Intelligent Asset Allocator and The Four Pillars of Investing—highly regarded, plain-spoken guides on how to build a diversified portfolio without the help of a financial advisor—the editor of the asset allocation journal Efficient Frontier, and the founder of the popular Web site efficientfrontier.com. He has also written two volumes of economic history, The Birth of Plenty and A Splendid Exchange, and is a co-principal in Efficient Frontier Advisors.

"The body of knowledge that the individual investor, or even the professional, needs to master is pitifully small."

"Once every decade or so, the wheels come completely off the machinery of the markets."

"Wall Street is littered with the bones of those who know just what to do, but could not bring themselves to do it."

"Two of the most virulent behavioral organisms are overconfidence and an overemphasis on recent history."

"I'll emphasize three main principles: first, to not get too greedy, second, to diversify as widely as possible, and last, to always be wary of the investment industry."

"If rigorous precautions are not taken, the financial services industry will strip investors of their wealth faster than they can say 'Bernie Madoff'."

"Very high returns are almost always made by those brave enough to invest when the sky is blackest."

"Investment wisdom begins with the realization that long-term returns are the only ones that matter."

"Investors who can earn an 8 percent annualized return will multiply their wealth tenfold over the course of thirty years."

"Many investors lean heavily on past returns to gauge future ones. This is a mistake."

"Home ownership is not an investment; it's exactly the opposite, a consumption item."

"If you must have a place in the mountains or on the beach, rent, don't buy."

"One of the dumbest things any investor can do is to own stock in the company he works for, since he can lose both his job and portfolio simultaneously."

"No risk matters more to investors than that of running out of assets before they die."

"No asset class has delivered the amount of stomach acid as have REITs, which moved up or down five percent in 45 of the 116 trading days in 2008's last half."

"The goal is not to maximize the chances of getting rich, but rather to minimize the odds of getting poor."

"Trading individual stocks is like playing tennis against an invisible opponent; what the investor doesn't realize is that he's volleying with the Williams sisters."

"Picking mutual fund managers and heeding the advice of market-timing strategists on the basis of prior performance were fool's errands."

"The most spectacular example of luck masquerading as skill was the recent case of William Miller, skipper of the Legg Mason Value Trust."

"When it comes to fund managers and market strategists, this year's hero usually turns into next year's zero."

"Mr. Buffett is not so much a money manager as a businessman."

"*Bogle's Folly*, the Vanguard 500 Index Fund, eventually became the world's largest mutual fund."

"The only thing that predicts future mutual fund relative returns well is costs; performance comes and goes, but expenses are forever."

"The Morningstar database suffers from so-called 'survivorship bias,' meaning that hundreds of poorly performing funds have disappeared from their fund universe,

all of which would have underperformed the index funds."

"For the money manager, it's better to be lucky than smart."

"Over the ten-year period ending December 2008, the Vanguard Short-, Intermediate-, and Long-Term Bond Index funds beat 99, 96, and 92 percent, respectively, of their actively managed peers."

"Over the long haul, the differences in the amount of wealth provided by different stock asset classes can vary enormously, and owning all of them helps minimize your chance of dying poor."

"Never, ever, extrapolate past returns into the future."

"The 'expected return' is simply our best-informed guess; like a night at the casino, the range of possible actual outcomes is large."

"The investor should forget trying to pick stocks and mutual funds or to time the market. The best the investor can do is to maximize returns by minimizing expenses."

"Because we cannot predict the future, we diversify" (Samuelson quote)

"If you cannot defer current consumption, you'll die poor."

"A Wilshire 5000-type total stock market fund essentially owns the stock of all U.S. publicly traded companies, and it's difficult to get more diversified than that."

"A twenty-five year-old who is actively saving for retirement should get down on his knees and pray for a decades-long, brutal bear market so that he can accumulate stocks cheaply."

"Age is the first factor determining the overall stock/bond allocation. Investor risk tolerance is the second."

"The most important asset allocation decision is the overall stock/bond mix. Start with the 'age=bond allocation' rule of thumb."

"The beauty of cap weighting is that it is "fire and forget.' No matter what the stock price does, the fund manager does not have to buy or sell."

"The 44/56 U.S./foreign split (Vanguard's World Index) is too foreign-heavy for my tastes."

"If you find that you cannot keep your eyes off the poor performance of individual asset classes, I strongly recommend that you seek the services of a professional

advisor so that you can focus your worries on other areas of your life."

"Be highly skeptical of sophisticated 'black box' methods of asset allocation."

"A perfectly simple and serviceable portfolio might be: 42% US Total Stock Market; 18% Total Foreign Market, 40% Total Bond Market. That's it. Done."

"More complex portfolios, particularly those with value and small stock emphasis, may have higher returns, but come at the cost of time and effort."

"Because of fund minimums, complex allocations are suitable only for larger portfolios."

"Equally important to what asset classes you chose are the nuts and bolts of your portfolio locations (taxable or tax-advantaged)."

"Nothing is as likely to destroy your financial future as your own emotions."

"Learn to automatically mistrust simple narrative explanations of complex economic or financial events."

"China as had one of the world's highest economic growth rates, yet between 1993 and 2008 its stock market has *lost* 3.31 percent per year."

"Nations with the most rapidly growing economics quite often have the lowest stock returns."

"Nothing last forever: more often than not, recent extraordinary economic and financial events tend to reverse."

"In an environment filled with incredibly smart, hard working, and well-informed participants, the smartest trading strategy is not to."

"In almost all cases, the rich would be far better of investing with the hoi polloi in plain-vanilla low-cost index funds."

"Hedge funds disappear faster than taco chips at a Super Bowl party. Of 600 that registered with government in 1996, just one quarter still operated by 2004."

"The reason that 'guru' is such a popular word is because 'charlatan' is so hard to spell."

"Always remember that the more exciting a given stock or asset class is, the more likely it is to be over-owned, overpriced, and destined for low future returns."

"The sooner you turn off CNBDC, get out into the bright sunshine, and take a walk,

the sooner you'll feel better about your investments."

"You're not going to impress the crowd at your country club by telling them you own shares of an index fund. Let them laugh; the joke's on them."

"The four most expensive words in the English language are 'This time it's different."

"If you've never been tested before, I strongly urge that you encounter your first bear market conservatively invested."

"Avoid the siren song of hedge funds, private investment pools, and exotic derivative-based strategies. Buy fuddy-duddy low-cost index funds."

"If you want excitement in your life, it's far safer and cheaper to take up sky-diving than to seek it in your investment portfolio."

"The most important investment ability of all is emotional discipline."

"Do not see patterns where there are none. Most of what happens in the financial markets in the short term is random noise."

"The average stock broker services his clients in the same way that Baby Face Nelson serviced banks."

"In the investment industry, honesty is most definitely not the best policy."

"Unlike your doctor, lawyer, or accountant, your broker is not a 'fiduciary': that is, he is under no legal obligation to place your interest above his."

"Don't come anywhere near a stock broker or brokerage firm; sooner rather than later you will get fleeced."

"Do not invest with any mutual fund family that is owned by a publicly traded parent company."

"You are engaged in a life-and-death struggle with the financial services industry. Every dollar in fees, expenses, and spreads you pay them comes directly out of your pocket."

"Most retirees should purchase 'longevity insurance' by postponing Social Security until age 70, and perhaps by adding a commercial immediate fixed annuity as well."

"I have nothing against ETFs, but I do believe that most investors are better served by the more traditional open-end funds."

"Our materialist culture constantly bombards investors with a toxic mix of consumerist claptrap that obliterates the ability to save."

"In general, variable annuities come wrapped in enormous fees and are offered by insurance companies, that as a group constitute some of the worst players in the financial business."

"Rebalance your portfolio approximately once every few years."

"The most important financial bequest to your heirs won't be monetary, but rather the ability to save, invest, and spend prudently."

"The traditional pension plan has been replaced with an investment mess of pottage: poorly designed, overly expensive, and thus miserably performing defined-contribution plans that seem almost consciously designed to fail."

"The most reliable indicator of fraud is the promise of high returns with low risk."

"You should live as modestly as you can, and save as much as you can for as long as you can. Saving 'too much' is not nearly as harmful as saving too little."

"Always remember that investing is not a destination, but rather a journey of discovery and learning. With luck, you've just gotten a good start."