31 Timeless Principles for Investing Success

Profit from these platinum investment techniques and learn how to become a great investor!

By R. Richard Everett
Financial Planner of the Year

31 Timeless Investment Principles

The following 31 principles will help you become a much better investor. They will help you save time, energy, and most of all, money. In fact, a great deal of money. By adhering to these laws, you'll make fewer mistakes and end up with far more money in your portfolio. That's a very big deal, don't you think?

I'm about to share with you many of the things I've learned over my 35-year career in finance. The knowledge, wisdom, and experience in the following pages will help you prosper.

A principle[1] is a fundamental truth or proposition that serves as the foundation for a system of beliefs or behavior or for a chain of reasoning.

These simple, yet powerful, principles will keep you out of trouble and help you make a bundle over the long term – use them wisely and reap the benefits.

<u>Principle #1 - Investing Is Not Easy</u>
If investing were easy, then everyone would be rich, and, as we all know – everyone is not rich. Let's face reality, investing can be tough, challenging, counter intuitive, and just plain exasperating. It's not supposed to be easy - if it were, everyone would live in the Hamptons. Face it and deal with it.

<u>Principle #2 - There Is No Secret</u>
There is no magic formula for successful investing, if there were, every business school on the planet would be teaching it, and everyone would be using it, and by doing so, would be rich. We have already established everyone is not rich. So, stop wasting your money on financial newsletters and 'fool proof systems' for becoming wealthy. The secret to investing success is that there is no secret.

<u>Principle #3 - Avoid Penny Stocks</u>
Why? Because they are trading at cheap prices for very good reasons, they aren't worth very much. It's a sucker's bet – don't do it. There are always good quality stocks available, so why buy junk? Personally, I wouldn't give you two cents for a penny stock.

<u>Principle #4 - Risk Is Inevitable</u>
All investments have some sort of risk. For instance, bonds have default and interest rate risk. Foreign stocks have currency and political risks. REITs have vacancy risks. CDs, although relatively safe, aren't risk free. Penalties for early withdrawal, inflation, and taxes can erode your savings in a hurry. Companies go out of business or file for bankruptcy all the time; Lehman Brothers, General Motors, Toy R Us, and Enron to name but a few. Anyone who owned shares in these companies lost money, a lot of money.

[1] Merriam-Webster Dictionary

It's impossible not to lose money in the stock market at some point in time. No one bats a thousand. Even the best money managers make mistakes.

Principle #5 – There is No Universally Perfect Investment

There is no single investment that is perfect for everyone. Your portfolio should reflect your risk tolerance, age, time horizon, and financial goals. If someone gives you investment advice without asking or knowing these vitally important details about you (like Dave Ramsey), run away. Prescribing without proper diagnosis is malpractice!

Principle #6 – The Problem of Uncertainty

The stock market and global economy are complex and chaotic. That is to say, there are too many factors and forces at work, at any given time, to accurately predict their outcomes. There are hundreds, if not thousands, of economic and political events that take place during any given day. Inflation, unemployment, money supply, wars, and natural disasters (to name a few) can and will have an impact on your investment portfolio. That's a big problem since we cannot possibly know all things simultaneously, nor the impact of all such occurrences. Put another way, the future is unknowable with any degree of certainty.

A good example of a complex or chaotic system is the weather. It's impossible for a meteorologist to accurately predict the weather 3-5 years from now. One dreary conclusion we need to draw is that unknowable situations are inevitable. Always assume you're missing something.

Einstein said it best: "Not everything that can be counted counts, and not everything that counts can be counted."

Principle #7 - The Future Is a Secret

Predicting the future is highly problematic. In real life, no one can predict the future accurately and consistently. Just because someone was right before, doesn't mean they'll be right again. Thousands, if not millions, of people make predictions each year. Some turn out to be correct, but most don't. Even broken clocks are correct twice a day. When was the last time you read a headline that said, "Psychic Wins the Lottery?" Me neither. Bottom line – the future is not ours to see, to think otherwise is intellectual dishonesty.

"Difficult to see, always in motion is the future." —Yoda

Forecasts aren't worth very much, and most people who make them don't make money in the markets. So, don't pay any attention to the 'gurus' behind the curtain. The future is a secret. Period!

Principle #8 - Turn Off the Financial News

Mute CNBC and Fox Business – tune out the noise and question everything. Why? Because something everyone knows isn't worth knowing. By the time you hear the 'news,' the stock price has already adjusted accordingly. Ten million people heard and saw it, too. When you get around to acting on the news, it's too late. Avoid taking advice from someone who gives advice for a living – they rarely have skin in the game, and therefore, don't have to live with the consequences of making bad investment recommendations. If they were true 'experts,' why would they be giving you free advice instead of keeping it a secret and becoming a trillionaire? Watching too much financial news can be hazardous to your financial well-being.

Principle #9 - Buy Stocks on Sale

Your success or failure in the stock market, or any other investment for that matter, is directly proportional to the price you pay. If you overpay for your stock, it might take years to make a profit. If you buy a stock on sale at a deep discount, you have potentially less downside risk and more upside probability.

Yahoo shares make a great example. If you bought Yahoo in January of 2000, you paid a hefty $237 per share. Fifteen months later, Yahoo was trading at $11, a 95% decline – ouch! It might take a couple of lifetimes to break even on this not so fortuitous trade. If, on the other hand, you purchased Yahoo when it was trading at $11, you would have had a 600% gain in less than five years! Same stock, different purchase price, completely different outcome.

"What is smart at one price is dumb at another." —Warren Buffett

Putting it more bluntly, buying securities at extraordinarily high prices is economic suicide. The lower the price you pay for a quality asset, the higher the upside potential and the lower the downside risk. Got it? It never ceases to amaze me why most Americans will not buy stocks and bonds when they go on sale.

"It's not risky to buy securities at a fraction of what they're worth." —Warren Buffett

Principle #10 - Avoid Academics and Their Economic Theories

Why? Many have a terrible track record when it comes to investing. True knowledge and know-how comes from actual experience, not the classroom. The trouble with economic theories is that they tend to be based on intellectually elegant assumptions about how the world of finance works, not on the messy reality in which we actually live. Google 'Long-Term Capital Management' and read what a mess academics can make, including Nobel Prize winners, when they enter the investment arena. They lost close to one trillion dollars, almost bankrupting the U.S. economy. Maybe they aren't so smart after all.

Principle #11 - Avoid IPOs – Initial Price Offerings

As an FYI, an IPO is when a private company or corporation raises capital by offering its stock to the public for the first time. Here's why you should keep your distance: IPOs tend to substantially underperform over 3-5 years after going public.

Here is how that IPO game is played: The really good offerings are generally reserved for very high net worth clients of the investment bankers who do the underwriting. If the IPO trickles down to the average investor, it is because no one else wanted it. The idea that a new issue is going to be the cheapest thing to buy among thousands of stocks is insane.

Principle #12 - Downturns Are Buying Opportunities

The stock market has recovered and moved on to new highs after every crash, recession, bear market, and depression over the past 200 years. That should tell you that market downturns are buying opportunities – not reasons to panic and sell. Buying high and selling low is by far the best way to lose money on Wall Street. Here's a notable quote from the world's greatest investor: "You try to be greedy when others are fearful, and you try to be very fearful when others are greedy." —Warren Buffett

Principle #13 - Investing Is a Craft, Not an Exact Science

No financial institute, business school, textbook, investment guru, portfolio manager, journalist, analyst, broadcaster, or media talking head has the Holy Grail or fool-proof system for investing. That's not the world we live in. An accurate understanding of investing is the essential foundation for producing good results. Charlie Munger, Vice Chairman of Berkshire Hathaway, is quoted as saying, "It's not supposed to be easy. Anyone who finds it easy, is stupid." It takes know-how, wisdom, skill, sound judgement, time, and nerves of steel to be a great investor.

So, how do you learn the craft of investing? Do what great investors do; read their books, annual reports, and listen to them when they give interviews.

Principle #14 - Use a Checklist

Always use a checklist before buying a stock. By using a checklist, an investor has a good chance of improving their investment process and formulating a repeatable strategy.

Being able to invest capital with a fixed set of rules and principles is one of the keys to wealth creation. Checklists help us to focus on what's important.

Investing in the stock market or in individual stocks can be rewarding – think Apple, Microsoft, Amazon, and Google, all with great long-term returns.

Investing can also be very dangerous, especially if you don't know what you are doing – think

Enron, WorldCom and Lehman Brothers (all bankrupt companies).

As investing gets more complicated over time, unsophisticated and undereducated stock pickers are especially disadvantaged by the complexity. The more choices there are (currently 50,000 stocks traded worldwide), the more confusing things get. That's why it is as important as ever to make enlightened, well-educated choices when investing in stocks.

For instance, do you want to buy a stock with a low price to earnings (P/E) ratio? Do you only want to own companies that pay a dividend or that insiders are buying? What's important to you? Write out your own checklist and stick to it. If you are trying to analyze a company without an adequate checklist, you may make a very bad investment.

Principle #15 - Dividends Matter
Why? First of all, if you are retired, they help supplement your income.

Secondly, according to Ned Davis Research, Inc., over the past several decades, 42% of the annual total return of the S&P 500 was derived from dividends. Get the implications?

Buy a non-dividend paying stock and you likely miss out on a lot of money.

According to the same research, dividend paying stocks outperformed non-dividend paying stocks over the past forty plus years by 6% per year and with lower risk. That's a big deal!

Here are six additional reasons I favor dividend paying stocks:

1. Companies that increase their dividend signal confidence in their future.
2. Buying dividend growing stocks helps as an inflation hedge.
3. Dividends are less taxing, 15-20% vs. ordinary taxation.
4. Dividend paying companies generally represent mature, stable businesses.
5. They provide steady cash flow.
6. They have relatively solid profits.

As Peter Lynch, author, investor, mutual fund manager, and an Andy Warhol look alike, is quoted as saying, "The reason that stocks do better than bonds is not hard to fathom. As companies grow larger and more profitable, their shareholders share in the increased profits. The dividends are raised. The dividend is such an important factor in the success of many stocks that you could hardly go wrong by making an entire portfolio of companies that have raised their dividends for ten to twenty years in a row." That's just a few reasons why dividends are so important.

Principle #16 - Know Thyself
Should you invest in stocks and/or the stock market? The answer is, it depends; it depends on many factors. Good investors need to know why they are investing. Is it for growth, income, growth and income, preservation of capital? How long (time horizon) will you be investing? One year, ten years, a lifetime?

Are you able to withstand market declines of 20%, 30%, or more? As an investor, you must "know thyself" before putting your hard-earned money into the stock market. The beginning of wisdom is achieving an accurate picture of yourself. Will you bail out if the market plummets? Investing in the stock market is not for everyone. To be a good investor, you must be patient, disciplined, and able to completely remove emotion from the equation.

Principle #17 - Buy Low – Sell High

Stocks that performed poorly over the past 3 to 5 years, generally outperform those that had done well over the previous 3 to 5-year period. Too many people buy high and sell low. They get greedy and buy hot stocks only to get burnt. Good investors know stock market declines are inevitable and see them as buying opportunities. Take one of the credit reporting agencies for example. You may recall a massive data breach in 2017. It was estimated that as many as 150 million consumers had been affected. As you might imagine, this adverse event had a devastating impact on the stock price. Trading at around $140 a share prior to the bad news was made public, it quickly sank to $93, a 33% decline in just a couple weeks. If you recognized this as a buying opportunity, you could have made $25 a share in just 8 weeks, a 25% gain. Buy low. Sell high. Put another way, a crisis is a terrible thing to waste. Unfortunately, the stock market is the only place where things go on sale, and the customers run away.

Horace, the ancient Roman poet, recognized this buy low strategy nearly two thousand years ago when he said, “Many shall be restored that are now fallen and many shall fall that are now in honor.” Two millennium later, Warren Buffett is preaching the same message:

> “The best thing that happens to us is, when a great company gets into temporary trouble – we want to buy them when they’re on the operating table.”

Jesus gave us a great investment tip when He said, “so the last shall be first, and the first last.”[2]

Principle #18 - “Hope” Is Not an Investment Strategy

The stock market doesn’t care what you think or how you feel. You can’t just buy a stock because your plumber mentioned it in passing and then hope it goes up while you watch it go down the drain. Here is some really bad news: The investment world does not always conform to our expectations, desires, hopes, or thoughts. Unfortunately, even good investment decisions can still lead to bad outcomes in an unknown world.

I love to read; on average, I read a book a week. Most of what I read has to do with investing. I scratch my head when an author makes a statement such as, “If you feel like the stock is going to go up…” or “If you think the market will go down…” What difference does it make how I feel or think? The market has no idea what I’m hoping for, thinking, or feeling. You need to make sound investment decisions and live with the consequences, good or bad. Stay calm, rational, cold-blooded, and detach your emotions when choosing an investment. Be evidence based – not hopeful.

Principle #19 - Know When to Sell

When should you consider selling a stock? After all, there is a time to buy and a time to sell. Here are six sell signals from one of Peter Lynch’s books:

Consider selling your shares:

- When a company changes their name – they may be trying to hide something.

[2] Matthew 20:16

- When a company lowers or suspends its dividend payment – more than likely, more bad news is forthcoming.

- If the Chief Executive Officer (CEO) or Chief Financial Officer (CFO) quits or resigns abruptly. Something bad is going on behind the scenes.

- If the stock you own is removed from the S&P 500 index. There is a reason why, and it is not good. Millions of shares will be dumped in a hurry, driving the share price down considerably. Cut your losses.

- When there is really bad news, remember the cockroach theory – there is always more than one.

- Sell when there's something better to buy.

My advice on selling is simple, if your stock no longer meets the criteria on your checklist – sell it. Don't hang on for dear life and hope your stock will recover. Hope is a lousy investment strategy. So is waiting to break even. If you find yourself in a hole – stop digging – get out – don't allow hope to triumph over reality – sell.

<u>Principle #20 - Always Diversify Your Portfolio</u>

Why diversify? Because risk can be hidden and is often unquantifiable. One of the biggest risks we face is that of an unknown future event like 9/11 and how such an event might affect our investments.

The purpose of diversification is to maximize your return by investing in different asset classes that do not react the same when an event happens. Diversification can be the most important component of reaching your long-term financial goals while, at the same time, minimizing risk. Proper diversification helps reduce risk and volatility by investing in multiple asset classes (stocks, bonds, commodities, etc.) that are non-correlated. You can smooth out some of the bumps in the road you're bound to face.

Stocks may be the top performing asset class this year, REITs next year, and fixed index annuities the following year. Because none of us can know the future with any degree of certainty, buying multiple (7-8 as Solomon suggests)[3] investments can assure us of having some of our investment dollars in the right place at the right time. With a diversified portfolio that suits your risk tolerance and long-term investment objectives, you may be able to live happily ever after.

Now that you know what diversification is and why it's important, let's be crystal clear on what diversification is not.

[3] Ecclesiastes 11:2 (NIV)

It's not owning three equity mutual funds, or five CDs at different banks, or four annuities with various insurance companies. If you own more than one mutual fund that owns the same stocks in each of their portfolios, you are not diversified! If you own multiple rental properties that make up the majority of your net worth, you are not diversified. What will happen to you next time we encounter another real estate collapse like we did in 2006-2012? Don't put all or most of your investable assets in a solitary asset class. You are asking for trouble if you don't heed the wisdom of the ancients: *Invest in seven ventures, yes in eight, you do not know what disaster may come.*

Principle #21 - Get Expert Investment Guidance

Any way you look at it, nothing is more difficult than succeeding in the investment arena, yet it is attempted by so many poorly trained individuals. As far as I am concerned, it is nearly impossible for ordinary investors to outperform the market because there is so much competition.

So, where do we turn for expert investment guidance? Let's explore what a registered investment advisor (RIA) is and what they do. RIAs are fiduciaries and held to a higher standard by the U.S. Securities and Exchange Commission (SEC). They are legally and ethically required to put their client's needs above their own at all times. A fiduciary is a person to whom property or power is entrusted for the benefit of another. An RIA is paid solely for advice, accepting no commissions for investment products. There are no conflicts of interest; both the client and the RIA sit on the same side of the table with their interests aligned. In contrast, commission driven salespeople (bankers, brokers, and insurance agents) are not fiduciaries; they are not held to the same legal standards as RIAs. Most RIAs are independent, which means they are not tied to any specific family of mutual funds, exchange traded funds, real estate investment trust, or any other investment products. They can do their own research and recommend what they consider to be the very best opportunities for their clients.

I also think most investors need professional help. I've seen too many people self-destruct by going it alone. Even Han Solo had a co-pilot!

The amateur investor has numerous disadvantages in relation to the professional. Recognizing this reality, even if you don't like it, especially if you don't like it, will help you a great deal in the long run. Here's why: According to a recent study done by Aon Hewitt, advice seekers retire with 79% more money than the typical investor. I think you'll agree that's huge! According to the Vanguard Group, an investment advisor firm, a good advisor can bring considerable monetary value to your portfolio – 3.75% per year in added value - by lowering your fees, increase performance, and behavioral coaching. RIAs help guide you through market declines and extreme volatility. They help you stay the course and focus on your long-term goals instead of short-term events that may distract you. Think about it this way:

> "A mountain climber who disclaims the aid of a guide can expect no other epitaph than that he deserves. The penalty of extreme folly!"
> —Arthur Crump

Principle #22 - Learn How to Behave Yourself

More and more studies are confirming the obvious, that most individual investors act irrationally. The problem is they don't know they are irrational. When the average investor gets clobbered in the stock market, they tend to blame it on somebody or something else. "My barber said it was a sure thing." "I didn't know the FED was going to raise interest rates." "How was I supposed to know Toys R Us was going to file for bankruptcy?" The finger of blame almost always points elsewhere.

Investors must take responsibility for their investment decisions and not seek a scapegoat. I have seen so many people make the dumbest stock selections over my career. Such as, buying shares in a 'chicken ranch' (brothel) in Nevada, penny stocks in an Angola gold mine, and GM a week before it filed for bankruptcy because it was "too big to fail." Nonsense, this last guy was watching too much CNBC. I warned this young chap that no company was too big to fail, and it made perfect sense for GM to file for Chapter 11 due to costly pension and other long-term retiree obligations.

Sure enough, despite my warning, he bought several hundred shares of GM and sure enough, a week later, they went bust. My inexperienced, dumb, advice seeker lost his shirt. Meanwhile, the alternative investment I recommended to him worked out quite nicely, thank you. More often than not, we are our own worst enemy.

The problem is most people do not recognize or admit to being irrational. Waiting for the stock market to recover before investing makes absolutely no sense. Why pay full price when you can buy at a discount?

Consider the following:
A recent DALBAR study shows the return of the S&P 500 index over a 30-year period was 11.11% per annum. Compare that to the average individual investor who only had a 3.69% per year return over the same time period. That's a whopping 7.42% difference annually! If you invested $100K at 11.11% for 30 years, you would have $2,358,275.00. The same amount invested at 3.69% over the same period only grew to $296,556.00 That's a $2,061,719.00 economic disparity.

So, why does the average investor underperform the market by such a large gap? Because many investors chase performance. They look at a list of top performing mutual funds and buy what's hot. Thus, once again, they buy high and will eventually sell low once the top performer tanks because of short-term underperformance, which is inevitable. According to Davis Advisor, 95% of the top-performing mutual fund managers fell into the bottom half of their peer groups for at least one three-year period. I hope you get the significance of that statistic. Folks buy a hot fund and dump it when it has a bad year or quarter. Buying high and selling low is a lousy investment strategy.

One of the biggest obstacles we face as investors is ourselves. Fear, greed, emotions, and constant wavering[4] can wreak havoc on our hard-earned investment dollars. So, if you want to be

[4] James 1:6-8

a great investor, stop misbehaving. It is one of the greatest dangers investors face. Do some serious soul searching, take a good look in a mirror – if you see the problem staring at you, do what the prodigal son did and come to your senses.

Can you handle the truth?

"The investor's chief problem and even his worst enemy – is likely himself."
—Benjamin Graham, author of The Intelligent Investor

Principle #23 - Accept Your Fallibility
Not all investment decisions will work out. A 70% success rate is outstanding. Remember, investors deal in probabilities – not absolutes.

Principle #24 - Adopt Reasonable Expectations
The stock market, as measured by the S&P 500, has returned about 10% as an average annual return since 1926. That means it's up 30% some years and minus 20% other years. You have to take the good with the bad. It's unrealistic to expect 20-30 percent returns every year. To do so is a reality distortion on the grandest scale.

A client was upset with me in early 2000 because she only made 50% in the mutual funds I put her in, in 1999. Her friend made 200% in a tech. fund. She moved her account from us to her friend's mutual fund. Remember the tech. wreck of 2000? Technology stocks and mutual funds decreased by 60-80%. My ex-client lost her blouse by having unrealistic expectations. Not being happy with 50% is idiotic.

I can guarantee that the stock market will eventually teach you a lesson or two. Unfortunately, they can be very expensive. Be realistic – harness expectations.

Principle #25 - No One Is Perfect
Everyone has bad years. Case in point:

Bill Miller, one of the most successful mutual fund managers in history, beat the S&P 500 index 15 straight years, from 1991-2005 (a remarkable feat), only to lose the entire 15-year gain in just two years, 2007 & 2009. The point is, no one can constantly perform well.

Get this – over 1,000 mutual funds owned Enron stock when it went down like the Titanic. That's about one out of four equity fund managers caught sleeping at the helm.

Even Warren Buffett has down years. The point? Stop chasing performance and hot funds. Last year's winner could very well end up next year's loser and vice versa.

Principle #26 – Avoid Short-Term Speculation

Never, ever invest in stocks or stock related investments like mutual funds and exchange traded funds for the short term. They are long-term investments. At the very least, invest for 3-5 years, preferably 7-10 years. It can take up to 10 years to recover from a major market downturn. Long-term investing mitigates most investment risk and volatility. Avoid short-term speculation. It's called gambling.

Principle #27 - Ditch Your Emotions

Emotions are a problem, a big problem. Great investors possess emotional stability. They make their buy-and-sell decisions on practical and calculated information, not feelings. Reason and logic must always overcome emotion. Just pretend you're British, stay calm and carry on.

Principle #28 - Success Leaves Clues

Great investments are great for good reasons. Look for clues. Is the CEO the next Steve Jobs? Are insiders buying shares? Does it have strong earnings? Is the company buying its shares back? There have to be good reasons for a company to grow and succeed. There also have to be good reasons for you to buy it.

Principle #29 - Fear and Greed Are Your Two Worst Enemies

I am reminded of a conversation I had with a couple of pastor friends of mine back in 2009. They wanted to know what I thought the market was going to do. As if I had access to some sort of psychic hotline. Remember, the S&P 500 was down 37% in 2008. I told them I thought the market had probably hit bottom, and it might be a good time to buy. Their response was perplexing. "Are you nuts?" they asked. They then began to rattle off a list of everything that was wrong with our economy and the stock market. Fear kept them out of the market. They ended up wasting a golden opportunity (buying low) to make a lot of money. Since my conversation with these gentlemen, the S&P 500 is up over 200%! A truly rewarding experience for this author and his family. Not so much for my two friends.

The Bible tells us at least 80 times to "Fear not."

In spite of what Gordon Gekko said, greed is not good. In fact, Jesus warns us to, "Watch out! Be on your guard against all kinds of greed."[5]

Years ago, an older woman had an appointment to see me for the first time. While wiping away her tears, she said to me, "I doubt you can help me but I was hoping against hope, that I was reading this statement incorrectly." As she handed me her brokerage statement, she told me her husband had just passed away and that she had never been involved in any of their financial decisions. When I took a look at the brokerage account, it had a balance of less than $100.00. The widow went on to say that her husband had invested their entire life savings in Enron stock. What used to be a half a million-dollar account was now worth just about nothing.

[5] Luke 12:15 (NIV)

I wish I could describe the look on her face when I confirmed they had lost all their money and indeed she was broke. I can't imagine what that must have felt like to be widowed and penniless.

Unfortunately, it didn't have to happen. The husband got way too greedy by putting all their eggs in a hot stock before it collapsed. Greed can help you lose your money in a hurry. Fear, on the other hand, can keep you from making money when opportunities arise.

Principle #30 – Keep Fees and Taxes Low

Keep investment fees and taxes as low as possible. Depending on what research you want to rely on, the average cost to own an actively managed fund is around 2-2.5% per year. That is an average, which means a lot of funds charge a great deal more.

If you add up the fees, charges, and cash drag[6], you are at about 2.27%, plus any initial sales charges you paid, give or take a few basis points. What does that mean for the average investor? If your fund had a gross return for the year of 10%, you net 7.73% after deductions. If you paid a sales charge or load of, say, 5% on an initial $10,000 investments, you received a 7.73% return on $9,500, or a paltry $234. That is less than a 3% total return on your investment dollars.

Think about that for a minute – you put up 100% of the initial capital, you assume 100% of the market risk, but you only receive a fraction of the gains. Oh, and by the way, they get their 2.27% even if your MF had a down year. How does that work? If the gross return was minus 10%, your account will decline by 12.27%. They still need to get paid for the fine job they do. Lovely, isn't it?

Here is something to ponder: The difference between paying 1% in annual fees versus 2% on a $100,000 investment over a 30-year period will cost you about $200,000. I hope you grasp the importance of low fees. $200K is a lot of money! High fees can severely damage your economic well-being.

Long-term capital gains and dividends are normally taxed at lower rates than ordinary income tax rates. Short-term capital gains (shares held for one year or less), however, are generally taxed as ordinary income tax rates. Why is that important? A Morningstar analyst estimated the average turnover ratio for a managed domestic stock fund was 130%, creating a great deal of short-term capital gains, which are almost always taxed at a higher rate.

Therefore, consider exchange traded funds (ETFs), index funds, or tax efficient mutual funds, which generate very little short-term capital gains. Cut your fees and taxes. Put more dollars in your pocket.

"Maximum diversification, minimal cost, and maximum tax efficiency,
low turnover cost, and no sales loads."
—Jack Bogle on how Vanguard achieved success

[6] MFs need to keep a portion of their assets in cash (around 2-5%) for new purchases and redemptions

Principle #31 - Stuff Happens

Market declines are inevitable – take advantage of them. Volatility is a gift – receive it with open arms.

> "Look at market fluctuations as your friend rather than your enemy. Profit from folly rather than participate in it." —Warren Buffett

Anomalies are regular occurrences on Wall Street – consider them buying opportunities. The idea of norm does not exist in the investment world.

You cannot be certain of anything when investing. You cannot be certain of the outcome when you make an investment decision. Remember, we deal in probabilities, not absolutes. What works today may not work tomorrow.

Here's a final word of wisdom from the Oracle of Omaha:

> "The market, like the Lord, helps those who help themselves, but unlike the Lord, the market does not forgive those who know not what they do."
> —Warren Buffett

Learn before you leap and then go forth and prosper.

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- 6 Ways to Increase Your Monthly Income and 5 Ways to Lower Portfolio Taxes
- Retirement Planning
- Timeless Principles to Become a Better Investor

FREE DOWNLOADS

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- The Women, Money + Power study
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- Investing 101
- Retirement Money Deserves a Good Home
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- 31 Timeless Principles for Investing Success
- Common Sense Principles for Achieving Financial Independence
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- The Bible and Investing
- 6 Ways to Lower the Taxes on Investment Portfolios
- God is in the Multiplication Business

- 6 Ways to Increase Your Monthly Income
- A Critique on Primerica
- Ten Thought Provoking Ideas on What To Do With Your Required Minimum Distributions
- A Dave Ramsey Manifesto
- Blogs
- Financial newsletters
- Risk analysis
- Financial tools
- Investment Recovery Service

BOOKS

How to Be a Great Investor – Investment Techniques for Christians