

Trust the Experts; Just Not the Ones Who Gain When You Lose

I recently read the book The Little Book of Common Sense Investing by John Bogle. It's a good book if you want to learn why Bogle thinks the Index approach to investing is superior to an active approach. I must admit that it does get a bit "mathy" at times, but the basic message is clear. **Indexing Works**, and it is the most efficient way to create wealth over time for the vast majority of people.

John Bogel of course is the guy who started Vanguard in 1974 and created the world's first index fund in 1975. In this new book, he has a special section at the end of each chapter that he calls "Don't Take My Word for It." He explains the point of these sections as follows. "Today, many of the wisest and most successful investors endorse the index fund concept, and among academics, the acceptance is close to universal. *But don't take my word for it.* Listen to these independent experts with no axe to grind except for the truth about investing."

To fill the "Don't Take My Word For It" sections of his book, Bogel scoured the investing world accumulating quotes and thoughts from well known investment experts related to indexing and investing in general and he included those quotes in his book. I too have scoured the investing world in search of these same quotes (plus I scoured his book) and in this article I present many of these quotes. Some of the quotes are from Bogle himself or from his book, some are from other sources, but all of them say the same thing, **Indexing Works, Active Management Doesn't.**

Just a quick primer for those still new to investing. When you follow an active approach you buy mutual funds that are "actively managed" which means there is a person, or group of people, who continually buy and sell stocks to be held in the mutual fund. They continually try and pick (guess) which stocks will go up and then buy them to be sold later in the hope of earning you a big return. In an index fund there is no such "fund manager." An index fund simply buys a number of set stocks and holds them forever. Active funds typically cost more to invest in, sometimes much more, than index funds. Also there is evidence to suggest that the active fund managers who do better than the index funds do so because of luck, not skill, and over time they too will eventually under perform the index.

For more on index funds check out this website.

http://mutualfunds.about.com/cs/indexfunds/a/index_funds.htm

Enjoy the quotes and thoughts that follow. I think you may find that taken collectively they are very persuasive. Remember, one of the most important aspects of a "successful" investor is their ability to select a plan and stick with it regardless of outside influences, which makes choosing your plan right the first time all the more important.

“Fund Investors are confident that they can easily select superior Fund Managers. They are wrong.”

“Accurately predicting swings in Investor Emotions is not possible. But forecasting the long-term economics of investing carries remarkably high odds of success.”

“The miracle of compounding returns is overwhelmed by the tyranny of compounding costs.”

“Only three out of the 355 equity (stock) funds that started the race in 1970, that’s 8/10 of 1 percent, have survived and mounted a record of sustained excellence.”

“While an index-driven strategy may not be the best investment strategy ever devised, the number of investment strategies that are worse is infinite.”

John C. Bogle Founder of Vanguard, creator of the world’s first index fund and author of several books on index investing.

“The best way to own common stocks is through an index fund that charges minimal fees. Those following this path are sure to beat the net results (after fees and expenses) delivered by the great majority of investment professionals.”

“Additionally, those index funds that are very low-cost are investor-friendly by definition and are the best selection for most of those who wish to own equities.”

“Over the past 35 years, American business has delivered terrific results. It should therefore have been easy for investors to earn juicy returns: All they had to do was piggyback Corporate America in a diversified, low-expense way. An index fund that they never touched would have done the job. Instead many investors have had experiences ranging from mediocre to disastrous.”

Warren Buffett, Commonly hailed as the “Worlds Greatest Investor” and Founder and Chairman of the Berkshire Hathaway Investment Group

"Most of the mutual fund investments I have are index funds, approximately 75%."

"Buy index funds. It might not seem like much action, but it's the smartest thing to do."

Charles Schwab, Money Magazine, Jan 2007

"Most individual investors would be better off in an index mutual fund."

"All the time and effort people devote to picking the right fund, the hot hand, the great manager, have in most cases, led to no advantage."

Peter Lynch, Former Manager of the Magellan Fund, One of the most successful Active Funds of All Time

“The Investment Business is a giant scam. Most people think they can find managers who can outperform, but most people are wrong.” His advice. “First get diversified. Come up with a portfolio that covers a lot of asset classes. Second, you want to keep your fees low. That means avoiding the most hyped up but expensive funds in favor of low cost index funds. And finally invest for the long term. Investors should simply have index funds to keep their fees low and their taxes down. No doubt about it.”

Jack R. Meyer, Former President of the Harvard Management Group, the company that tripled Harvard Universities endowment from 8 to 27 Billion Dollars, Dec 27, 2004 Business Week

“The creation of the first index fund by John Bogle was the equivalent of the invention of the wheel and the alphabet.”

Dr. Paul Samuelson, M.I.T. Economics Professor

“Over long periods of time hardly any fund managers have beaten the market averages. It’s better to invest in an indexed fund that promises a market return but with significantly lower fees.”

The Economist, A Well Respected Financial Periodical

“Every professional in the city knows that index funds should be the core building blocks in any long-term investor’s portfolio. Since 1976 the Vanguard index fund has produced a compound annual return of 12 percent, better than three quarters of its peer group. Yet even 30 years on, ignorance and the professional omerta (code of silence) still stand in the way of more investors enjoying the fruits of this unsung hero in the investing world.”

Jonathan Davis, “Happy Birthday Index Funds”, The Spectator, Sept 16, 2006

"Most of my investments are in equity (stock) index funds."

William F. Sharpe, Nobel Laureate in Economics, 1990

So investors shouldn't delude themselves about beating the market? "They're just not going to do it. It's just not going to happen."

Daniel Kahneman, Nobel Laureate in Economics, 2002;

"Properly measured, the average actively managed dollar must under perform the average passively managed dollar, net of costs. Empirical analyses that appear to refute this principle are guilty of improper measurement."

William F. Sharpe, Nobel Laureate in Economics, 1990

"The deeper one delves, the worse things look for actively managed funds."

"Buy a well run Index Fund and own the whole market."

"99% of fund managers demonstrate no evidence of skill whatsoever."

"There are two kinds of investors, be they large or small: those who don't know where the market is headed, and those who don't know that they don't know. Then again, there is a third type of investor - the investment professional, who indeed knows that he or she doesn't know, but whose livelihood depends upon appearing to know."

"Your adviser should use index/passive stock funds wherever possible. If he tells you that he is able to find managers who can beat the indexes he is fooling both you and himself."

William Bernstein, Neurologist and Author of [The Four Pillars of Investing](#) and [The Intelligent Asset Allocator](#)

"Index funds have regularly produced rates of return exceeding those of active managers by close to 2 percentage points. Experience conclusively shows that index fund buyers are likely to obtain results exceeding those of the typical fund manager whose large advisory fees and substantial portfolio turnover tend to reduce investment yields. The index fund is a sensible, serviceable method for obtaining the market's rate of return with absolutely no effort and minimal expense."

Burton G Malkiel, Author of [A Random Walk Down Wall Street](#)

"The results of this study are not good news for investors who purchase actively managed mutual funds. No active investment style generated positive abnormal returns over the 1965-1998 sample period. The sample includes 4,686 funds covering 26,564 fund-years."

James L. Davis, Mutual Fund Performance and Manager Style, Financial Analysts Journal 57, 2001

"More often than not, aiming for benchmark-matching returns through index funds assures shareholders of a better-than-average chance of outperforming the typical managed stock or bond portfolio. It's the paradox of fund investing today: Gunning for average is your best shot at finishing above average."

Tyler Mathisen, Executive Director of [Money Magazine](#) at the time of the quote

"The road to financial perdition begins with a call to your broker who claims to be able to 'beat the markets.'

Daniel R. Solin, Author of Does Your Broker Owe You Money? and The Smartest Investment Book You'll Ever Read

"If I have noticed anything over these 60 years on Wall Street, it is that people do not succeed in forecasting what's going to happen to the stock market."

Benjamin Graham, Legendary investor and author of Security Analysis 1934

"By day we write about "Six Funds to Buy NOW!"... By night, we invest in sensible index funds. Unfortunately, pro-index fund stories don't sell magazines."

Anonymous Fortune Magazine Writer Fortune, April 26, 1999

"The wiser choice is to dispense with the consultants and reduce the investment turnover by changing to indexed investments in equities."

Charlie Munger, Warren Buffet's Partner

"(I invest in) Vanguard Index Funds. I've owned the Vanguard Index 500 for 23 years. Once you throw in taxes, it just skewers the argument for active management. Personally I think indexing wins hands-down. After tax, active management just can't win."

Ted Aronson, partner of a Philadelphia Money Management Firm, response when asked how he invests in a Money Magazine article.

"Buying Funds based purely on their past performance is one of the stupidest things an investor can do."

Jason Zweig, columnist at Money Magazine

"Any pension fund manager who doesn't have the vast majority - and I mean 70%-80% of his or her portfolio - in indexed investments is guilty of malfeasance, non-feasance or some other kind of bad feasance"

Merton Miller 1990 Co-Recipient, Nobel Prize in Economic Science

"... skepticism about past returns is crucial. The truth is, much as you may wish you could know which funds will be hot, you can't -- and neither can the legions of advisers and publications that claim they can. That's why building a portfolio around index funds isn't really settling for average. It's just refusing to believe in magic."

Bethany McLean, "The Skeptic's Guide to Mutual Funds," Fortune Magazine, March 15, 1999

"Santa Claus and the Easter Bunny should take a few pointers from the mutual-fund industry [and its fund managers]. All three are trying to pull off elaborate hoaxes. But while Santa and the bunny suffer the derision of eight year olds everywhere, actively-managed stock funds still have an ardent following among otherwise clear-thinking adults. This continued loyalty amazes me. Reams of statistics prove that most of the fund industry's stock pickers fail to beat the market. "

Jonathan Clements, Only Fools Fall in ... Managed Funds?, Wall Street Journal, September 15, 2002

"People ought to realize that the average fund can never outperform the market in total."

Jon Fossil, Former Chairperson of The Investment Company Institute
Wall Street Journal, April 29, 1998

"After a lifetime of picking stocks, I have to admit that Bogel's arguments in favor of the index fund have me thinking of joining him rather than trying to beat him."

Jim Cramer, host of *Mad Money*

"Assuming that the future is like the past, you can outperform 80% of your fellow investors over the next several decades by investing in an index fund and doing nothing else."

Mark Hulbert, editor of Hulbert Financial Digest

"The four most dangerous words in investing are, "*It's different this time*"."

Sir John Templeton, legendary investor. Money Magazine, Fall 2002

"History shows that in the long run a thoughtfully designed, diversified strategy of "passive" funds typically beats all but a few active managers. It's not easy to structure and maintain such a strategy. It requires some initial research and discipline to stay the course. But it's much easier than predicting which active managers will randomly beat this approach."

Eugene Fama, Jr., DFA-2001

"We can extrapolate from the study that for the long term individual investor who maintains a consistent asset allocation and leans toward index funds, asset allocation determines about 100% of performance."

-Roger Ibbotson, Ibbotson Associates [The True Impact of Asset Allocation on Returns](#) 2001

"Most mutual funds find it (beating the market) hard to do. In fact, less than 20% of actively managed diversified large-cap mutual funds (in plain English: big funds managed by guys and gals in fancy suits) have outperformed the S&P 500 over the last 10 years. Pretty dismal."

The Motley Fool, A company that writes investment articles

The next three quotes come from presentations made to the new millionaires at Google. When the founders of Google realized that all the people who worked for them were going to become multi-millionaires when Google went public, they brought in three leaders in the field of investing to give their employees advice on what to do with all the money they were about to receive. Here is what they said.

"Don't try to beat the market. Put your savings into some indexed mutual funds, which will make you just as much money (if not more) at much less cost"

Stanford University's William (Bill) Sharpe, 1990 Nobel Laureate economist and professor emeritus of finance at the Graduate School of Business.

"Don't try to beat the market, and don't believe anyone who tells you they can—not a stock broker, a friend with a hot stock tip, or a financial magazine article touting the latest mutual fund."

Burton Malkiel, formerly dean of the Yale School of Management and now a professor of economics at Princeton and author of the classic *A Random Walk Down Wall Street*

"Those brokers and financial advisers hovering at the door are there for one reason and one reason only—to take your money through exorbitant fees and transaction costs, many of which will be hidden from your view. They are, as New York attorney general Eliot Spitzer described them, nothing more than "a giant fleecing machine." Ignore them all and invest in an index fund. And it doesn't have to be the Vanguard 500 Index. Any passively managed index fund will do, because they're all basically the same.

John Bogel

These quotes were all taken from the following online article
http://www.sanfran.com/content_areas/home/view_printable.php?story_id=1507

"At the end of every 36 years, you will only have made half of what you could have, through no fault of your own. And these are fees you needn't pay, and won't, if you switch to index funds."

Paul Solli partner at a small financial management firm in Sausalito called Aperio Group

“Sell the hyped but fee-laden funds in your portfolio and replace them with boring, low-cost funds like those offered by Bogle’s Vanguard.”

“We work in the most overcompensated industry in the country,”

“The industry knows they are peddling bad products, and a lot of people making the most money and getting the most prestige are doing so by gouging their customers”

Patrick Geddes, Former CFO at Morningstar, the nation’s leading company for researching and appraising mutual funds

“Buy an index fund. This is the most actionable, most mathematically supported, short-form investment advice ever.”

The Motley Fool