CHAPTER 1

Congratulations! Simply picking this book up means you are serious about your financial future. By reading it, you will know more about investing finance than 99% of the world's population. This information is worth a fortune. I have kept it short and simple so that you will be more likely to read it completely. I will explain everything in plain English, just as if we were chatting over a cup of coffee.

I wrote this book for the benefit of my family. When a father or mother knows something important, it is their inclination to tell their children. That is just what parents do. We want our children to have every advantage. In my case, what I have learned about investing in the last 45 years is so valuable, I had to write it down to be sure my sons would have it in a concise form. This book distills 45 years of experience into some simple conclusions that I want my family to fully understand.

I would like to start out with something that should help motivate the reader to accumulate "money machines". Money machines are just that, instruments that produce money.

Let me share a short but powerful story that should help to put this concept into focus.

A twelve-year-old boy was asked to sit down with his father. His father was an Italian Immigrant who had come to the United States with nothing. The father said that the boy was to listen carefully to what he was about to be told. Here is what the father told his young son:

"What I am about to say is so important, it must never be forgotten. It is the kind of information that that will change your life. Remember these words and pass them on to your children."

With that, the man outstretched his arms palm side up.

"When I came to this country, I had nothing. I had no money, and nothing to sell except my hands, my sweat, and my heartbeats. Put your hands on top of mine and tell me what you feel."

The boy placed his hands on his father's upturned hands. His father's hands were heavily calloused and rough. The boy told his father that his hands felt like the bark of a tree.

"These are the hands that I sold. They have laid up over a million bricks and blocks. All I had to sell was these hands and my understanding of masonry. I had very little formal schooling, but I knew how to mix concrete, and how to read a level and square. I knew how to build a wall straight and true. I knew how to form an arch with stone that could support a building. People were willing to pay me for my hands, and for the little bit of knowledge that I possessed. I did not know much, but what I knew, I knew well, and understood with all my heart, and in every fiber of my being. Now my son … hear and understand this, for I have learned another thing well, and it is what I will teach you today. What I am about to tell you is worth a fortune. I don't say that with any exaggeration, or arrogance. I'm about to tell you something that very few people your age ever hear, and even fewer understand. I almost feel as if I am telling you a great secret."

At this point, the father poured himself a glass of wine and poured a small amount into a shot glass which he handed to his son. This was a ceremony, and it was designed to be etched into the boy's mind.

"Take a sip of wine. I want to show you something."

The man and the boy took sips of wine, and the father continued his speech.

"Take this and look at it," he said as he handed the boy an impressive looking certificate. It was elegant. The calligraphy and artwork made it look like it should be framed and hung on a wall. The edges were gilded, and the entire thing had the feel of something extraordinary.

"What you have in your hand is the very first stock certificate that I ever owned. They don't issue them like this anymore. Now everything is done differently. Stocks are just numbers in an account. But I saved this certificate so I could give it to you, and you will have it to show to your children. This is a very important part of your education, and it is your responsibility to pass it on.

The certificate was issued from Coca Cola. It indicated that the holder of the certificate owned five shares of stock.

“What you hold in your hand does not sweat like me. It does not hurt like I do after a day of work. It doesn’t get rough and leathery as my hands are after years of lifting bricks to make money. No, it just produces income like a little money machine. If you own enough of these machines, they can make more money than your father’s hands. Do you understand this? Shares like these will pay for your college education. They will allow your mother and me to retire and enjoy life without back breaking work. I have always used a part of what these hands made to buy pieces of wonderful American companies. These are like special machines because they make more of themselves the longer you own them. It is important that you understand this. Time multiplies these things, and they grow in numbers as the years go by. You must begin to buy money machines as early as you can because the longer you own them, the more they make of themselves. This is a form of mathematical magic.”

After taking another sip of wine, and instructing his son to do likewise, the father displayed a leather handled mason trowel to his son.

"This trowel has laid up tens of thousands of bricks. It has helped me to make a lot of money, but it can only make money when it is in my hand and moved by my arm and my strength. I dip it into the concrete, I deposit the mix onto a brick and then use it to sweep away the excess. I tap the brick level with the handle. I do that over and over again until my trowel, my strength, the bricks, and mortar have made something that will last for hundreds of years."

He did all of this while making the exact moves with his trowel as if he were laying a row of bricks. This action was done with the smoothness and grace that comes from doing something hundreds of thousands of times. He then continued.

"It is a good and honorable tool. It put food on our table and a roof over our heads, but it could do none of that without my hand, and the strength of my arm. When I wipe it clean, and set it in my work bag, it could stay there for a hundred years, and it will not make a penny. That is not the case with these money machines, he said once again, handing the stock certificate to his son. They produce money day and night, week after week, year after year. They multiply and make more of themselves. Much like a plant that produces seeds to make more of itself, these money machines produce seeds called dividends that buy more and more shares for you as the years progress. Over a very long time, they can be worth millions. To them, time is magic. This magic is called compounding, and it is how a man like me, who started out poor, can eventually become wealthy. Unlike a man, who loses strength as he ages, these money machines gain strength and produce more as time passes. Money machines work for you nonstop. They work when you sleep, when you rise, and when you go about life. They work when you can no longer work yourself. It is your responsibility to accumulate them as early as possible so that this incredible process can begin."

The father swallowed the last of the wine and set the empty glass down hard.

"You see this empty glass? This is what you will have in old age unless you do as I am instructing you. Never spend all that you make. Use some of your earnings to buy money machines. When I worked in the hot sun for ten hours a day, I invested two hours pay into money machines. Someday, those money machines will do all my work for me. I will rest in the shade, but I will keep this trowel to remind me of my humble beginnings. Respect the tools and the skills that you make your living with.

Never substitute excuses for saving. There will always be a reason to postpone saving. Every one of those reasons lays out a path to poverty. It is a path well-trodden, and one you must never take. Let my words stay in your heart and mind. Do you understand?"

With that, the son drained the last few drops of wine from the shot glass. He set it down hard. He tipped it upside down, he looked his father in the eyes, and said: "Yes."

It is my hope that by the end of this short book, you too will say *yes.* Yes, you understand the importance of accumulating money machines, and yes, you know how to do it efficiently. I believe low cost index funds are the most efficient way to accumulate money machines. (stocks) Investing does not need to be complicated or expensive. Actually, when it comes to investing, simplicity and efficiency are proving to be the best course.

CHAPTER 2

Accumulating A Retirement Fortune Is Much Easier Than You Think

First, stop giving away up to 50% of your investment earnings. (Yes ... millions of people do it!)

What? Who would do that? No one in their right mind would give away 30%, 40% or even 50% of their investment earnings, would they? Yes, they will, and they do. In fact, many people who are invested right now are giving away a substantial percentage of their earnings. Most have no idea how much, or even how it is taken from them. (They don't actually "give it away", they pay it out in fees and expenses.) The net result is the same. The money leaves their account, never to return.

> ***Some investors have given away 50% of their one-year gains!***
>
> ***Expenses are often overlooked because they don't sound like much, but that can be mistake.***
>
> ***Accounts grow much larger when less is taken out of them to pay fees.***

Let me explain. I will use a simple example to keep the math easy. Say $10,000 is invested with a full-service broker, who charges 1.25% for managing the portfolio. That does not sound too bad, after all, the broker knows a lot more about this stuff than the average investor. The broker has the account invested in four different mutual funds, all of which charge a 0.75% management fee. Again that sounds cheap since the folks who run those funds can, and often do, make double-digit returns. Here is the problem: 1.25% +0.75% equals 2%. If the gross amount of gain is just 4% over the course of one year, and it cost 2% of the portfolio value in fees, that means $200 of the $400 in gains went to fees. ($10,000 x .02=$200) **That $200 is 50% of the yearly earnings!**

I'll repeat that because it's important; 50% of the earnings gets paid out in fees. *Let's do the math.* The total portfolio gain is $10,000 x 4% = $400. If 2% is paid out in fees, those fees must be deducted from the $400 in gross gain. That leaves you with just $200, or 50% of your original gain. The money was invested for an entire year to earn 4%, but in the end, you only realize 50% of that amount after the combined fees from the broker and the fund managers! Half of your earnings go to others!

Of course, if the gross returns are higher, the percentage of your gains paid out to fees goes lower. For example, if the return is 10%, the math would be: $10,000 x 10% =$1,000. Since the fees are $200, we divide $200 by $1,000 to get 20%. (That is still a huge chunk of the yearly gains being paid out in fees!)

I know what people are thinking: “Hey! Wait a minute. How did we pay 50% of our gain when the broker only charges a measly 1.25%? This is beginning to sound a bit confusing!”

Yes, it is confusing. Yes, the portfolio management fee is only 1.25%. That 1.25% is charged against the entire amount of investments under management. In this case, the amount of assets being managed is $10,000. 1.25% x $10,000 is $125. Since the mutual funds all charge.75%, we must calculate $10,000 x.75%. That equals $75. When those 2 fees are added together, they equal $200. Since the entire portfolio gained 4%, and 4% x $10,000 is $400, we need to deduct the $200 of expenses from the gross gain. The net gain becomes $200, or 50% of the gross gain. (Is this all beginning to make sense now?) How would anyone feel who did a job for $400 and got paid $200 after expenses?

Think about that for a minute. Your investing goal is to compound money as quickly and efficiently as possible. One way to achieve that is to keep investing expenses low. In my personal accounts, I keep almost 100% of my earnings because I pay no broker management fees, and I use very low-cost index funds. Believe me, that makes a huge difference.

If the market undergoes a correction, (a drop of 10% or more), and your funds go down by 10%, you lose an additional 2%, since you pay fees regardless of whether the market goes up or down. At this point, your net loss is not 10% but 12%. Regardless of what the market does, that 2% paid out in fees is a big piece of invested money that disappears. Never underestimate how damaging the loss of 2% can be. When markets are relatively flat, and gains are only in the 3% or 4% range, that 2% in fees is devastating. If the stock market has a soft year and only returns 2%, the net gain after expenses will be zero.

Bear in mind that fees go on year after year. If the first 2% of a portfolio goes to fees, the portfolio must overcome that before any gains are made. What if, instead of paying 200 basis points, (2%), the account was self-managed and invested in an index fund costing just 7 basis points? That is what I do. Instead of paying 50% of the profits in fees, (on a 4% gain), I get to keep nearly 100% of my earnings. My total cost for $10,000 invested in an index fund charging 7 basis points is just $7. Instead of paying $200 for management and fees, I pay just seven bucks per year! That's less than 2 cents a day on $10,000. All that extra gain gets re-invested and will continue to grow and multiply for decades! Investing like that provides a powerful edge. Wealth will grow a great deal faster. I will demonstrate how that seemingly insignificant 2% could result in a difference of hundreds of thousands of dollars! By the way, not many things about investing can be stated categorically as a sure thing. Expenses, however, are something that can be shopped for, measured, and controlled. Reducing expenses can drastically improve long-term returns.

Say that $10,000 is invested, along with an additional $500 a month for 40 years. With extremely low expenses, say 0.09%, instead of 2.00%, at the end of 40 years, the account will have accumulated $1,728,098.53 on an 8% yearly return. That same portfolio with a 2% fee will yield $696,669.56 less! May I repeat that for emphasis? Just paying that 2% out in expenses will result in almost seven hundred thousand dollars less! Somebody got that $696,669.56 … just not you! Think about that for a minute. Think about it because it could change your life. It could change the way you live when you reach my age. (66 years old.) It will be too late then to get that money back. You will wonder then why someone did not warn you. Well, you have now been warned! At the risk of being redundant, let me explain what that means in terms of income. At age 66, you start drawing out 4% of the portfolio as a pension. *(4% is a commonly recommended withdrawal rate.)*[1] The low expense portfolio provides an income of $69,123.94 per year. The high expense portfolio provides an income of $41,257.15. Read that again. It is especially important to understand how much difference expenses make

[1] The assumption is that your account will continue to earn some returns, so keeping your withdrawal down to 4% should extend the length of time your funds will last. If you earn more than 4%, your account may actually grow as you draw on it.

over long periods of time. In this case, the period was 40 years. Why would anyone want to have a retirement income of $41,257.15, when they could just as easily have $69,123.94? (Said another way, why settle for a retirement income of $793 a week when it is just as easy to have $1,329 a week?) Who would not want to invest in a way to make the higher yearly income, especially when the only difference is the fees paid during that 40-year period of accumulation?

Believe me, two percentage points over long periods of time make an incredible difference. Here is another example: Let's say a 21-year-old decides to put $300 per month into a 401(k). If that account earns 8% yearly, by age 66, the account should have a total of $1,391,420.22. (Calculations are without taxes or fees.) If the account earned 10%, the total would be $2,588,057.41. Look at the difference just 2% makes! Do you see now why I have absolutely no desire to pay out 2% in fees?

Let me put it another way. Having a portfolio with high fees is like running a racecar with low octane gasoline. Running one with extremely low fees is like racing with nitromethane. Nitromethane fuel carries some oxygen to enhance combustion. A low expense portfolio carries all that extra money never paid out in fees, and that money compounds to make the account grow faster.

A person retiring with $2.5 million is going to have a much more luxurious retirement than a person who has just $1.4 million. Incredibly the only difference between them is the 2% in fees. By the way, this example is a working-class person putting away just $300 per month for 45 years. In all likelihood, wages will go up with time, and so will the monthly savings. It is not impossible; in fact, it is very easy, for an average working-class person to be able to accumulate large sums of money to retire with, providing they start out very early. I must emphasize again here, that *time* is the magic.

Now let me be clear, I have nothing personal against full-service brokers or financial advisors. I know lots of them, and most are wonderful people who work hard and want clients to be successful in their investments. They can and do provide valuable services. A full-service broker may advise a client away from making awfully bad investments. For example, a client becomes convinced that a stock she has heard about is the opportunity of a lifetime and wants to buy it for her portfolio. The broker may look at the stock, analyze its numbers, and advise the client to steer clear of that investment. That advice may save the investor from making a serious mistake. The broker might very well save that client far more than the 1.25% they charged for management. If, in such a case, the broker saved the client from a 60% loss, the 1.25% paid for that advice will have been money well spent.

Some of the other services that brokers, and financial advisors provide are as follows:

1: They help evaluate the level of appropriate risk for every age.

2: They can help investors select funds that will fit into their goal and risk criteria.
3: They can advise on financial strategies and help make certain there will be enough liquidity for withdrawals when needed.
4: They will provide clients with calming, reassuring words when the market gets volatile and investments fluctuate wildly. Many full-service brokers have prevented their clients from making serious and costly mistakes during market downturns. They deserve credit for that.

The services they provide are not free, but if you feel that you need them, and some people do, then employ them at the lowest cost you can negotiate. Be sure to let them know that you are very concerned about fees and expenses. Tell them you need to know exactly how much the fees are on a quarterly, and yearly basis. Make sure they know that you want investments with extremely low expense ratios.

I know that not everyone is cut out to manage their own investments. Some people just do not have the temperament. They tend to over-react and may do more harm than good for themselves if they try to manage their own money. Some folks just do not want to be bothered by it all; they prefer to have someone else do it for them. Some investors don't understand the business, and don't want to learn about it. These people should use financial professionals. Just remember, most people would not hire a lawn service to mow and trim their property unless they knew how much that service will cost on a yearly basis. It baffles me why people hire financial professionals without ever asking how much *it* will cost on a yearly basis.

My position is that I simply do not need them, and millions of investors may not either, once they understand some very simple concepts. Today, anyone can achieve the same, and sometimes better results on their own using very low-cost funds, *(Index funds, ETF's, or low-cost mutual funds)*. By saving on expenses, the difference in wealth accumulation over time is astounding. My point in this discussion is not to disparage the financial services industry, but to point out that there is ***no free lunch.*** Money management comes at a cost, and that cost can reduce portfolio growth quite significantly over time.

New investors often need help and guidance as they begin the process of growing a fortune. One option to consider is hiring a fiduciary. What is a fiduciary? I'm so glad you asked! A fiduciary is legally obligated to act in your best interest. It is not enough for a fiduciary to advise clients on an investment that will be *suitable* for them. The fiduciary will charge a flat fee for her advice, but that advice must always be in the best interest of the client. If a total stock market mutual fund with an expense ratio of 1.23% would be suitable, but an index fund can be had to do the same thing for an expense ratio a full percentage point less, the fiduciary will advise the client to buy the index fund. That is clearly in the client's best interest. The fiduciary is not "selling" anything. She is an advocate. She is there to advise, and she is legally bound to maintain the client's best interest. She does not work for free, but neither does a plumber. She may have expertise that an investor needs, especially at the beginning of an investment journey. What I am talking about here is a ***fee-only advisor***.[2] Those exact words are important. A *fee-only advisor* is not allowed to take commissions or payments from third parties. No one is pushing her to sell a particular mutual fund, bond, or any other vehicle. She only recommends something if your best interest is satisfied. A *fee-only advisor* may advise clients to sell some investment generating 2% annually, in order to pay off a credit card debt costing 21% annually. She may recommend this action even if it means she will make less money from the account she is managing. (She is paid a percentage of investments under management.) She is being paid to do what is best for the client. ***Gee ... you never heard about any of this before!*** I wonder why? Who did you think was going to tell you? I have absolutely nothing to gain by any of the information I provide. I am not in the financial business, nor do I represent any company or organization. My only objective in writing this book is so my children and grandchildren will have the critical and often hidden information that it took me too long to find and figure out for myself. I would be derelict of my parental duty if I failed to provide this information to my children, even though they are grown men.

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[2] New investors with tiny accounts may find that advisors are not willing to take them on as clients. Since many advisors get paid based on a percentage of money under management, a tiny account will not pay them enough. You may be able to pay a straight fee for advice though.

An organization called NAPFA, (National Association of Personal Financial Advisors), can help you find a fee-only advisor near you. They have a website which I strongly recommend: www.napfa.org. This site will provide lots of helpful information about fiduciaries, and how to find and evaluate them. There are financial education videos, webinars, articles, and much more. It is a great place to go to understand the fundamentals of smart investing.

Here is an especially important point regarding 401(k) plans provided by the workplace. 401(k) administrators may be selected by the employer, which means you may not have a lot to say about expenses and fund choices. It is still a good idea to question and be aware of all expenses related to the plan. Having said that, ***by all means, maximize your participation in your 401(k).***

Note: *For those not familiar with ETFs, mutual funds, index funds, stocks, bonds, 401(k)'s, and IRAs, you may want to jump ahead to chapters 5 and 6 where I explain these things in simple terms. One of the fundamental rules of investing is to know and understand everything about what you have invested your money in. Just knowing a stock symbol, and generally what a company does, is not enough. Chapter 5 will explain mutual funds, index funds, ETFs, stocks, and bonds. It's not very complicated. I compare mutual funds, index funds, and ETFs, with individual stocks and bonds. I explain about IRAs, 401(k)s and Roth IRAs in chapter 6. Remember, this is investors' kindergarten, so we are going to keep it simple and easy to understand. Remember also that* *building wealth is like building a house. If you do not know the difference between a truss, a joist, a header, and a rafter, you aren't ready to do any building at all. So, if you want a better understanding of the building blocks of investing, jump right over to chapters 5 and 6, and in just a few minutes I will demystify these investment concepts for you. (Whatever you do, do not skip reading any of this book. All of it needs to be understood completely.)*

> **DISCOUNT**
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> ***Discount brokers have made it possible for anyone to have access to the stock market for the lowest cost possible.***
> ***This is a new age and new ear for investors.***

OK. Investing your nest egg without paying high fees and expenses can be done using a discount broker and buying index funds, ETFs, or low expense ratio mutual funds**.**

(Of course, individual stocks can be bought at low-cost, but that does take a lot more skill and experience.) Here are a few names of discount brokers to consider:

Fidelity, Charles Schwab, Vanguard, E-Trade, TD Ameritrade, TradeKing, and Interactive Brokers.

I use Fidelity, and I am always amazed at the wonderful tools and research they provide for free. All these discount brokers do a good job in providing support. Once an account is opened, there will be a plethora of ETFs, index funds, and mutual funds from which to choose. Which funds you choose will make all the difference in the world. Deciding on the right funds is where some professional guidance may be a good idea. Lots of things need to be considered, including your age, time frame, and risk profile. Getting on the correct trajectory is especially important. Most discount brokers will be able to provide some guidance. You may have to pay for that service, but it is important that all resources are allocated in a way that best meets your needs and objectives. While this is not complicated, it does require experience that an investor may not have when they begin the investment journey. A discount broker may have a CFP (certified financial planner), or a CFA, (chartered financial analyst) on staff that can help get the process started. Just remember, if someone is managing your account, they will charge a fee, and that fee will be a drag on all future gains. If a portfolio of low-cost index funds or ETF's can meet your needs, you really do not need to pay anyone a management fee to babysit that portfolio. An occasional review to ensure that the allocations still meet your goals is a good idea. Discount brokers provide lots of tools at no cost that are extremely helpful.

It is when people first begin to invest that they often get locked into management arrangements where they tend to remain in for years without any further thought or question. When the account is tiny, the expenses do not amount to much. Once the account starts getting larger, the expenses grow because they are based on a percentage of the account's total value.

ETFs and index funds like those that mirror the S&P 500 can expose investors to the stock market for fees as low as 0.04 percent. (That is just four one-hundredths of one percent!) That's as close to free as one can get! It is easy to learn about ETFs and index funds. Many discount brokers provide easy-to-use educational materials at no cost. Some of these resources are in video format, so anyone can just watch and learn. Today it is so simple to get helpful information; there is no reason to be confused. I will provide a list of resource materials in the Appendix at the end of this book.

It would be impossible and irresponsible of me to advise specific ETFs or index funds. That would require a complete understanding of your age, time horizon, risk tolerance, and many other financial particulars. That is not the point of this book. I am not a certified financial planner, and even they cannot advise anyone without first knowing all their particulars. The point of this book is to share with my family and friends what I have learned the hard way over the last 40 years. I have learned that many managed portfolios do not beat, or even match, the S&P 500. I have learned that I can buy an index fund or ETF which, over time, will do as well, or better, than an actively managed account. I can do this for a ridiculously low cost. (Cost are also called *expense ratios*.) The money I would have paid out in fees is left in my accounts to grow and compound for many years. (Remember, once fees are taken out of an account, they are gone for good.) Everyone in this game plays for keeps.

I have studied every aspect of the stock market for years. When I invest, I analyze balance sheets, income statements, cash flow statements, and most of the SEC (Security & Exchange Commission) reports about the company I am interested in. I analyze reports like the 10 -K, 10- Q, 144/A, S–1, and 8-K. I listen to corporate conference calls, read all special reports on the company's activities, and study the critical ratios. Financial ratios help me analyze a company's valuation, liquidity, profitability, management, efficiency, and growth rate. I also perform discounted future cash flow analyses for companies in which I plan to invest.

Believe me; I'm not telling you all of this to convince you how smart I am. *Quite the opposite.* I have spent hundreds of hours on analysis and thousands of dollars on research, and guess what ... my investments almost *never* beat the returns of the S&P 500 index; and what's worse is, neither do most investors, including the pros.

Even hedge funds with genius mathematical quantifiers and options traders cannot consistently beat the returns of the S&P 500.

Do you see where I'm going with all this? There are very few people in this world that have been fortunate enough to consistently beat returns that can be achieved by simply investing in the overall market. I am trying to convey some of the things that I had to learn the hard way. It would take years to develop the expertise that I have in equity analysis, and you still won't likely be able to do any better than buying low-cost index funds or ETFs, and holding them for long periods of time. Don't get me wrong, I don't regret the education I've gained, but I realize that for the most part, it is unnecessary to have that level of understanding to succeed in the stock market. You can do as well, or better than me, and better than most mutual funds, by simply understanding what is written in this single chapter and doing things the easy and inexpensive way.

> **EYE OPENER**
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> ***I have spent hundreds of hours on analysis and thousands of dollars on research, and guess what… my investments almost never beat the returns of the S&P 500 index, and neither do most investors: including the pros.***

As an investor, and serious student of the financial markets, it is only natural that I have financial heroes that I regard as exceptional. One of the heroes that I look up to is Warren Buffett.[3] He is arguably one of the greatest investors of all time. Warren is the Director of Berkshire Hathaway. He recently made a bet in 2008. The bet was for one million dollars, with the proceeds going to the winner's charity of choice.

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[3] Warren E. Buffett is the Director of Berkshire Hathaway. He is also the largest shareholder. Warren is considered one of the greatest investors in the world. He is also a philanthropist, pledging to give away most of his billions.

> ***Warren Buffett's bet that the S&P 500 index could outperform hedge funds, should be a real wake up call to all investors.***

Let me tell you a little bit about that bet. **Warren bet that over a 10-year period, starting in 2008, a low-cost S&P 500 index fund could outperform hedge funds selected by a famous New York City-based money manager, Protégé Partners.** Warren chose the Vanguard S&P 500 index fund: **VFINX.** The money manager would select five funds of hedge funds and hope to outperform the S&P 500. These hedge funds would no doubt involve some of the most brilliant minds in the financial world today.

Would you like to know the results after eight years? Well here it is:

The S&P 500 index fund is up 65.67%

Hedge funds are up 21.87%

If this were a boxing match, the referee would probably stop the fight.

But, as they say in the television infomercials: ***wait there's more!***

Warren Buffett has offered the following advice to the trustees of his estate in the event of his death. He would like his estate to be invested in the following manner: 10% of the funds should be in short-term U.S. Treasuries, ***and 90% of the funds should be in an***

S&P 500 index. *Did I mention the fact that we are talking about one of the greatest investors and richest persons on earth?* Warren is a man who has access to billions of dollars, and unlimited amounts of financial research. Despite all that, he is determined that the absolute best place for the money that his heirs will receive would be with a **low expense ratio *S&P 500-index fund***. *(He suggested Vanguard, but there are many to choose from,)*

Possibly one of the most important things anyone can do while reading this book is to re-read the paragraph printed above. Re-read it slowly, and let that information sink in.

I know, as I reflect on 40 years of investing, that Buffet's advice would have done wonders for me. It would have saved me a great deal of suffering. I could have just bought some super low-cost index funds and let my fortunes rise with the market. Even though there have been multiple corrections and recessions, I would have done very well indeed, thank you. Instead, I bought and sold individual stocks. I won some, lost some, and aggravated myself to a degree that I cannot even explain. I was 100% positive that I could do better than a boring old index fund. **I was wrong!** The S&P 500 Index fund knocked my socks off year after year. I would be hundreds of thousands of dollars ahead of the game today if I just bought index funds and left them alone. May I make my confession now? I was an idiot! I thought I could beat the market and the millions of brilliant people who were competing against me. I thought my money was somehow magical, and the stocks I bought would simply go up and make me rich. I knew how to read balance sheets, cash flow statements, and income statements. I thought that was going to make me special. Well, it didn't. I almost NEVER beat the returns of the S&P 500 index**.** **Finally, it dawned on me!** When it dawned on me, I did the following:

I put my upturned hands out in front of me. I slowly lowered my head into the palms of my hands and said the following words: "STUPID ... STUPID ... STUPID!" That was it. That was my epiphany. It was my light bulb moment. I berated myself most unmercifully, telling myself I was an idiot, nitwit, numbskull, etc. … fill in the blanks. I re-read the wisdom of John Bogle[4]. I finally got it! I titrated out of many of my stock positions (not all), and bought index funds with the proceeds. My investment performance has been much better ever since. I had a slow and painful learning curve, and that cost me a lot of time and money.

I don't want my children to have to go through that. I want them to be successful. I want them to be able to retire with a substantial pension fund that will make their golden years sweet. This is the advice I give to my adult sons, and their wives. *The fact is, I wrote this book* for the benefit of my family. Since I had to print it up anyway, I thought I would share it with you. If my

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[4] John C. Bogle is the founder of Vanguard Mutual Funds. He developed the first index fund, and has been a strong advocate of individual investors. He is a prolific writer, and has educated millions of investors on how to invest without incurring heavy expenses.

adult children read it, understand it, and share it with their children, I have done my job, and consider it a major success! I expect that many others who read it will someday be millionaires. I hope you will be one of them.

The magic that makes all of this happen is *time*. The more time an investor has before retirement, the greater the likelihood of accumulating an enormous nest egg. Investing is not nearly as complicated as many would like to have you believe. In fact, it's one of the simplest things that a person can do. *Start your investments as early as possible because time is a critical piece of the investment equation.*

Have you ever heard of the Rule of 72? Let me explain It is quite easy. When we divide the number 72 by the return we expect to make, the quotient is the number of years that it will take for the investment to double. Let's use a very simple example: Earning 10% annually, money will double in 7.2 years. Just to make the math a bit easier, we will call it seven years. (That will require 10.29%.) OK, start the math. Mary has $10,000 at age 22. If she earns 10.29% on her investments, she will have $20,000 at age 29. At age 36 she will have $40,000, and at age 43 she will be up to $80,000. By age 50, Mary has $160,000. At age 57, she has $320,000. By the time Mary is 64, she has $640,000. Now think about that for a moment. Mary has $640,000, and she has not even added a single penny to the original $10,000. By the way, if Mary does not need the money, and she hold on another 7 years, she will be looking at 1.28 million!! Mary will only be

73, and if she is still in good health, she may want to take several luxury cruises every year. She sure will not have to worry about having the money! (These calculations assume no taxes or expenses) Mary put in the first $10,000 dollars, and the market put in hundreds of thousands more! That's the way this is supposed to work!

My point here is to show the value of time and compounding. Time is the key element that makes all this compounding work. Do not get sidetracked by the enormity of financial blather that has become ubiquitous in every media format. If you want to get wealthy, it takes time. Sorry, none of this is sexy. When you are 22, the very last thing you want to think about is being 64; I get it. One of my great regrets in life is I did not know the power of compounding when I was 22. I still did not know it at age 32. I did not learn this until my time window had already deteriorated. I was just a working stiff, but I could have retired a multimillionaire if I knew then what I know now. It simply is not that difficult. If you are reading these words, and you are under 30 years old, please take them to heart and begin to invest now. Do not wait until you have "a little extra cash." Believe me, that day will never come, and you will squander away the critical years that could be building a fortune. Regardless of your age, the absolute best time to start investing is RIGHT NOW!

So, we were talking about some of my financial heroes. I could not possibly continue this book without mentioning the name, John C. Bogle. He is truly a pioneer and a giant in the investment world. Let me tell you a little bit about him. John Bogle is the founder of the Vanguard Group. He founded that company in 1974. It is now the largest mutual fund and index fund company in the world, with assets in excess of $2 trillion. Even Warren Buffett, one of the world's richest men and greatest investor, wants the bulk of his estate to be invested in the Vanguard S&P 500 index fund after his death. Mr. Bogle has written many books, many of which I have read, and would recommend to you. He is a firm believer in the concept of mutual funds and index funds. He is also an advocate of very low expense ratios, so that the investor reaps and keeps most of the gains. I like and agree with the advice Mr. Bogle provides. If you follow his advice, your fortunes should grow nicely. I encourage you to start with Mr. Bogle's book: **The Little Book of Common Sense Investing: The Only Way to Guarantee Your Fair Share of Stock Market Returns.**

I have a comprehensive financial library, but if I had to pare it down to just a few books, I would certainly include those written by John Bogle. I say this even though Mr. Bogle has essentially confirmed that much of the effort that I expended in my investment career was largely a waste of time. If I did as he instructed, I could have achieved results far better than those that I did through great effort, expense, and aggravation. He has essentially said that I did not have to expend the thousands of hours I did on research. The good news is that Mr. Bogle will teach you how to be a superior investor with almost no effort. It is no surprise that Fortune Magazine designated him as one of the investment industries giants of the 20th century. In addition to being a financial powerhouse, Mr. Bogle is also a fine man, a wonderful human being, and someone who understands what the real values in life truly are. Put this book on the top of your "must read list". If you don't want to spend the money to purchase his books, most public libraries have copies for you to borrow.(He is extremely rich so he won't mind that you didn't buy a copy. He is a good man and truly wants everyone to be succesful.) Make a point of reading John Bogle; you will not be sorry.

Summary

Investing is not all that complicated. You *can* make it extremely complicated, as I did, and still not do any better than simply investing in an S&P 500 index fund, and/or other index funds that represent large segments of the stock market. The magic that makes everything work is *time*. We reviewed the Rule of 72, and understanding this simple concept will help in understanding how important time and return rates are to reaching investment goals.

We talked a bit about Warren Buffett and John Bogle, two of the true giants of the financial industry. Both of these guys are in their 80s, and I still find every word they say fascinating and extremely pertinent. Warren Buffett is one of the richest men on earth, and arguably one of the greatest investors in the world, and has decided that his heirs should invest most of their inheritance in one of the wonderful S&P 500 index funds in Mr. Bogle's Vanguard. This fact alone should tell you a lot. If it is good enough for Warren Buffett, the world's greatest investor, it is good enough for me!

It is time now to go to chapter 3 where we will discuss the ***100% guarantee.*** Not very many things come with a 100% guarantee, especially with regard to investing. But in chapter 3, I will present something that is absolutely, positively guaranteed 100%. **This guarantee is extremely important to know.** See you there.