



# The six rules for lazy investors

## Build a million dollar portfolio the easy, boring way

"If you want excitement, take \$800 and go to Las Vegas...It is not easy to get rich in Las Vegas, at Churchill Downs, or at the local Merrill Lynch office," continues Samuelson.

But it is easy for lazy investors to get rich using a boring, dull strategy, even in today's mind-numbing hyper-sensationalistic news machine. Last year, I estimated that the average investor was being overwhelmed by 43,000 fund and stock recommendations, via newspapers, magazines, cable television, radio and the Internet. The intensity of this noise confuses and brainwashes investors, resulting in costly mistakes.

Investors need a way to sift through the useless chatter about the 8,000 or more funds out there. So years ago I started tracking the best unexciting, dull, boring, simple, lazy portfolios I could find that were being used by Nobel winners, money managers, advisers, behavioral finance experts, millionaires and average investors.

Most of their portfolios are very simple, with 10 or less funds. I wrote a book about them, "The Lazy Person's Guide to Investing." Here's what they told me: The six basic strategies used by America's laziest investors, guaranteed to help you diversify, lower risk, level out bull/bear cycles, and generate returns close to or better than market benchmarks:

### 1. Live below your means & save 10%

In *"The Millionaire Next Door,"* Tom Stanley and Bill Danko tell us the one habit all millionaires share is frugality. "They live well below their means ... The opposite of frugal is wasteful. We define wasteful as a lifestyle marked by lavish spending and hyper-consumption. ... Being frugal is the cornerstone of wealth-building."

The math is so simple: Nothing saved equals nothing invested, equals nothing for retirement. Save at least 10% if you want to be a millionaire investor.

### 2. Swing for singles & bet on every horse

Lazy investors win by being average. *"No-Load Stocks"* author guru Charles Carlson uses a baseball analogy: Swing for singles and forget the homerun superstars. In *"Ordinary People, Extraordinary Wealth,"* money manager Ric Edelman says investors are not in a horse race, but playing horseshoes where if you're close enough, that's good enough to win. "If successful investors know they can't pick the right horse, what do they do? Simple: They pick every horse," says Edelman.

Millionaires match the averages by diversifying with low-cost, no-load index funds.

### 3. Trust the explosive power of compounding

Albert Einstein put it very simply: "There is no greater power known to man than compounding interest." Compounding is more powerful than nuclear energy. A 25-year-old can put roughly \$3,000 in an IRA every year and with ten percent average returns retire a millionaire at 65. A 45-year-old can do it by maxing out their 401(k) with \$1,250 a month. Notice the explosive power: At 65, most of your million dollar retirement portfolio will be in the growth. For example, the 25-year-old will have invested only \$120,000 over 40 years; the rest is compounded interest and appreciation!

### 4. No market timing, no day trading

Markets are random and unpredictable says Wharton economist Jeremy Siegel, author of *"Stocks for the Long-Run."* He researched the stock market's 120 biggest up and biggest down



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days between 1801 and 2001. He said only 25% had a rational explanation.

In a study of 66,400 investors, behavioral finance experts Terry Odean and Brad Barber concluded: "The more you trade the less you earn". The most active traders averaged 11.4% returns while their portfolios turned over 258%. Buy-and-hold investors with 2% portfolio turnover enjoyed 18.5% returns.

Traders lose money due to higher taxes, expenses and transaction costs.

### 5. Buy quality and never sell

Warren Buffett was once asked about his favorite holding period. "Forever," said the Sage of Omaha, who added that the best time to sell is "never!" Okay, there are some exceptions. But if you buy quality companies and index funds with proven long-term track records, you won't be tempted to sell when the market dips and talking heads on cable news freak out.

Remember, your most important decision is the up-front buy decision: So pick funds and stocks on the assumption you will never sell!

### 6. The tortoise always beat the hare

In researching 5,000 millionaires, money manager Ric Edelman discovered that they average six minutes a day on personal finance. They don't waste time watching cable news, reading self-serving brokerages reports, attending seminars, studying stocks tables, subscribing to financial newsletters, pondering economic reports, reading daily newspapers, etc., etc.

Millionaires spend six minutes a day on personal finances and live their lives for the other 23 hours and 54 minutes. They create diversified lazy portfolios that operate quietly in the background, generating nice long-term returns with minimal effort.

Most of these portfolios are as simple as Dr William Bernstein's "No-Brainer Portfolio" which is currently

averaging just under 10% a year the past decade. [Bernstein](#) is the neurologist and money manager who wrote "*The Intelligent Asset Allocator*." You simply put 25% of your portfolio in each of four index funds (in this case Vanguard index funds) it's that simple, boring, dull and lazy:

#### Total Stock Market Index

([VTSMX](#): [news](#), [chart](#), [profile](#))

#### Small-Cap Stock Index

([NAESX](#): [news](#), [chart](#), [profile](#))

#### European Stock Index

([VEURX](#): [news](#), [chart](#), [profile](#))

#### Total Bond Market Index

([VBMFX](#): [news](#), [chart](#), [profile](#))

So when you're ready, step up to the plate and play ball! Or pitch horseshoes. Learn how America's laziest investors can get on the fast-track to a million dollar retirement. And remember, have fun and please don't spend a lot of time on investing. There are far more important things in life, loved ones, family, hanging out with friends, sports, hobbies, movies ... plain old, ordinary, everyday living.

*By Paul B. Farrell, MarketWatch, April 3, 2005*



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