Best Investment Ideas Stand the Test of Time

The more I learn, the less I know.
When I started writing about personal finance, I eagerly waded into the pool of investment ideas, looking for some opinions to call my own. But most of the beliefs I adopted have not stood the test of time. Indeed, these days I find I am left with just three core investment ideas:

Financial Success is a Sense of Control
If you ask folks about their financial goals, they will likely offer a laundry list of goods they want to buy or announce they want to accumulate as much money as possible. But in reality, both goals are a prescription for unhappiness.

Sure, it might be nice to purchase everything that catches your fancy. But nobody has unlimited wealth, so a focus on endless consumption inevitably results not in happiness, but in frustration and financial stress.

Yeah, it would also be great to have heaps of money. But if all you want is an even bigger pile of cash, you will never be satisfied, because you will never reach your goal. So, what should you shoot for? A far worthier goal, I believe, is eliminating the anxiety that comes with managing money. You want to reach that sweet spot where you feel your finances are under control, no matter what your standard of living and level of wealth.

Investing is Simple
No doubts about it, there are lots of investments and investment strategies that are mighty complicated. But complexity usually means investors are running the risk of rotten results and Wall Street is getting the chance to charge fat fees.

Investing is best when it is simple. In fact, if you want to accumulate a healthy nest egg, there isn't much to it.

First, you have to save a goodly amount, preferably at least ten percent of your pre-tax annual income. *Second*, you should consider investing at least half of your portfolio in stocks, even if you are approaching retirement. *Third*, you should diversify broadly, owning a decent mix of large, small and foreign stocks. *Fourth*, you should hold down investment costs, including brokerage commissions, annual fund expenses and taxes. *Finally*, you should give it time.
A little humility also helps. Don't waste effort — and risk havoc — by trying to pick the next hot stock, identify the next superstar fund manager or guess the market's next move. Instead, your best bet is to buy and hold a few well-run mutual funds.

We are the enemy
If successful investing is so simple, why do so many people mess up? It isn't the markets that are the problem, it is the investors.

We make all sorts of mistakes. We fret about the performance of each investment that we own, so we don't enjoy the benefits of diversification. We are often overly self-confident, which prompts us to trade too much and bet too heavily on a single stock or market sector. We extrapolate recent results, leading to excessive exuberance when stocks are rising and unjustified pessimism when markets decline. We lack self-control, so we don't save enough.

If you are going to truly be a successful and happy investor, it isn't enough simply to devise strategies that allow you to meet your investment goals. Your strategies also must give you a sense of financial control and fit with your risk tolerance, so that you stick with them through the inevitable market turmoil.

That may mean keeping more of your money in bonds and money-market funds. It could mean paying for an investment advisor. It might mean scaling back your financial goals and accepting that the kids won't be heading to Harvard and that you won't be able to retire early.

These sorts of choices aren't foolish. What's foolish is settling on investment strategies without considering whether you can see them through.

— written by unknown author April 25, 2000