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9 Investing Truths That Don't Get Enough Credit

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Search "investing" on Amazon and you get 149,449 book results. Many of them are great, but the core principles of investing don't require length. Just nine broad points guide most of what I think about investing.

1. Investors tend to see past market declines as opportunities but future market declines as a risk.

So much of successful investing is your ability to think long term, and the ability to think long term requires bridging the psychological gap between what's uncomfortable today and what's likely to benefit tomorrow.

2. Compound interest is what makes investing magical — and it takes an incredible amount of time.

Warren Buffett has a net worth of $76.7 billion, roughly $76.4 billion of which accumulated after his 50th birthday. Buffett is brilliant, but the secret to his success is the fact that he's been brilliant for three-quarters of a century. You can achieve great results in years, but sensational results are almost always measured over many decades.

3. Everyone needs a financial plan, but the most important part of the plan is planning on the plan not going according to plan.

"Room for error" is the only way to cope with a world where the timing of outcomes is largely unknown. The reason the stock market tends to be rewarding over time is because returns might come when you don't need them, and vanish when you do. That's the market's entrance fee. Think of it this way and you realize how important a long, flexible time horizon can be.

4. Investing has a little to do with math and numbers and a tremendous amount to do with psychology and temperament.

A basic grasp of arithmetic but the ability to keep your cool during downturns will get you far. A PhD in physics but an impulsive and panic-prone temperament will likely lead to regret. That's because the intelligence side of investing is competitive with millions of other investors, but the behavioral side (patience and impulse control) are only battles with yourself — an easier war to win.

5. The solution to most financial problems is "save more money."

There is 24-hour business news; there is no 24-hour savings news. Saving more money isn't an exciting topic because it requires sacrifice. But it's one of the most important personal finance topics because it's both in your control and serves as the raw material that drives the magic of compounding. As the saying goes, "Save a little bit of money each month, and at the end of the year you'll be surprised at how little you still have."

6. The perfect investment has never, and will never, exist.

Stocks, bonds, gold, and real estate have all suffered periods when they plunged in value and didn't fully recover for more than a decade, when inflation is accounted for. In due time, no one expecting perfection will enjoy their experience as an investor. The key is a combination of diversification, optimism, and patience (a belief that diversification and optimism are always worth sticking with).

7. You can probably afford to not be a great investor, but you probably can't afford to be a bad one.

The point of investing shouldn't be to maximize returns, but to earn returns sufficient to meet your goals. That isn't giving up: The pursuit of above-average returns comes at the risk of earning below-average returns if a strategy doesn't pan out. And while most people need average returns to meet their goals, they can't afford below-average returns to get where they need to be.

8. "I don't know" are the three most underused investing words.

No one knows what the market will do next month or next year. But professionals can't charge a consulting fee for humility, so there are legions of people who are happy to tell you that they know. And if that guy on TV knows, why can't I know as well? It's a dangerous cycle. Admitting that you don't know what the market will do next does not make you dumb. It makes you in touch with the realities of a capitalist system whose two-steps-forward-one-step-back journey is driven by the unforeseen, the unexpected. In biology, evolution occurs when unpredictable, accidental mutations form something beneficial that is eventually selected for. Same with economies.

9. There are no points awarded for difficulty.

This isn't true in most fields, where results typically scale with the amount of effort put in. But good investing results are often about stripping away counterproductive habits that seem like they should work. Excessive trading, for example, is widely shown to be the fastest way to achieve poor investment returns. The solution to that problem isn't more effort; it's more time at the beach, away from the temptation of fiddling with your portfolio when a simple buy-and-hold strategy will do. I have not made a meaningful change to my portfolio in many years — a point I see as an accomplishment.

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