MAIN STREET VS. WALL STREET

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Witt's Wisdom

One of the finest financial books I have had the pleasure of reading in the past few years is *Clash of the Cultures: Investment vs. Speculation*. The author is John Bogle, founder of the Vanguard Group.

Here are a few takeaways from this fascinating book:

1. Much going on in the markets is not investing: Sixty years ago, stock-trading volumes averaged about 2 *million* shares per day. In recent years we have traded about 8.5 *billion* shares of stock daily – 4,250 times as many.

2. If beating the market is a zero-sum game *before* costs, it is a loser's game *after* costs are deducted. Investors incessantly bet against one another, day after day – inevitably, to no avail – in the stock market.

3. The stock market is a giant distraction from the business of investing.

4. Lord Keynes warned that the stock market would become "a battle of wits to anticipate the basis of conventional valuation a few months hence, rather than the prospective yield of an investment over a long term of years."

5. In 1950, individual investors held 92 percent of U.S. stocks and institutional investors held 8 percent. The roles have flipped, with institutions now holding 70 percent and individuals holding 30 percent.

6. Hope, fear and greed go along with the volatile market of short-term expectations, while trust in reason goes with the real market of long-term intrinsic value.

7. There are two radically different views of what investing is all about. One is the real market of intrinsic business value. The other is the *expectations* market of momentary stock prices.

Individual investors need to wake up. Investors need to look after their own best interests. Investors must demand clearer disclosures and more transparency. Investors need to be educated about the hard realities of investing. Investors need to understand the magic of compounding long-term returns. Investors need to also understand the tyranny of compounding costs that erode long-term wealth. Investors need to know about sensible asset allocation and the value of diversification. Investors need to recognize that short-term trading – like casino gambling – is ultimately a loser's game. Investors need to understand the behavioral flaws that plague so many market participants. And, investors need to understand that *investments usually perform better than investors*.

Investment advisors need to focus primarily on long-term investment. Investment advisors should act as prudent trustees for their clients. Investment advisors need a far deeper sense of caring about their clients' best interests above their own. Investment advisors must lead with integrity and wisdom.

Investors must choose an advisor who understands the rules of investing. And, investors should choose an advisor who exhibits the above attributes.

References
John C. Bogle, *The Clash of the Cultures: Investment vs. Speculation* (2012)