ON INVESTING

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I prefer to invest in ETFs. To invest in an ETF is to invest in a mutual fund. In an ETF, a mutual fund is sliced into thousands of tiny portions, each of which can then be traded like a stock. The only difference between investing in a mutual fund and investing in an ETF is that a mutual fund settles (it’s sale price is determined) at the end of each day, whereas an ETF settles as soon as the trade is made. So, on those rare occasions when one wants to be in or out of the market part of the day but not the rest of the day, ETFs are preferable to mutual funds. But, generally speaking, trading with such precision is best left to day traders. Essentially, to invest in ETFs is to invest in mutual funds.

I prefer mutual funds to an active brokerage account. You can read Benjamin Graham or Warren Buffett to learn how to read the financial statements of corporations; and you can read *Barron*’*s* or the *Wall Street Journal* to find out how the management teams of corporations are performing and which are likely to do well. But all that bores me to tears. With a mutual fund (or its ETFs), you get massive diversification within whichever index the mutual fund follows. Plus, numerous studies have shown that passive investing (investing in mutual funds) results in superior returns to active investing (picking individual stocks and actively trading in and out of them to attempt to maximize profits).

Since each mutual fund/ETF only follows one index, to truly be diversified requires investing in several mutual funds. For example, I am invested in four Vanguard ETFs: an S&P 500 ETF (25% of my liquid-asset investments), a FTSE developed markets ETF (20%), a small-cap value ETF (25%), and an emerging markets ETF (20%). (I also have 10% of my liquid assets in REITs and 5% in bonds.)

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To educate myself in personal finance, I began at age 40 the habit of reading one book on personal finance every June (after my academic year ended). So I have read approximately 30 books on personal finance, and hundreds of articles. When I retired in May of 2011, I spent the next three months organizing all the notes I had taken over the years concerning personal finance. Those are now available in my document, “Essentials of Personal Finance.”

I have also written an article, “IRAs, Traditional vs. Roth,” explaining why I believe most people should place their investments in a Roth IRA, rather than a traditional IRA.

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Lastly, let me say something about the desire to protect against downturns.

Downturns are inevitable. But my experience is that it does not pay to try to time the market. You can read Masonson’s *All About Market Timing*, which gives a dozen methods for when to step in and step out of the market. But all of those methods are refuted by Burton Malkiel in *A Random Walk Down Wall Street*. To time the market, you must be right twice: when you get out, and when you get back in.

Instead, keep these two reassurances in mind.

First: Time mitigates volatility. A drop of 20% or 30% in a year will leave your stomach well above your head. But the market’s average gain of 10% a year over the last 100 years mitigates the volatility. If you won’t need the money for the next 10 years, invest aggressively and forget about it.

Second: The more you have, the more you can afford a big downturn. Suppose retired person A has $1 million, and retired person B has $100,000. If the market is cut in half, A will live comfortably while the market reverts to its pre-downturn level, but B may go under permanently. If you have accumulated a comfortable nest egg, don’t worry about downturns. Worry about missing the big upturns.