NICOLAS BÉRUBÉ

FROM ZERO TO MILLIONAIRE

"A joy to read"
—Gérald Fillion, CBC Radio-Canada

A simple, effective & stress-free way to invest in the stock market

The top 1% of the wealthiest Americans have 40% of their net worth invested in stocks and mutual funds, while the bottom 50% in terms of wealth on average only hold 2% of their assets in these types of investments.

For a long time, only the wealthy had the means and contacts to invest in these other types of assets. This is no longer true. Of course, having little money is a hindrance to investing, but not an insurmountable obstacle. Starting to invest $5 a day at the age of 20 can make us millionaires in retirement. Without taking unnecessary risks. Without reading financial newspapers or becoming a finance nerd.

You don't need to have worn out the benches of business schools to become a great investor. In fact, the further you are from business schools, the more of an innate advantage you have in growing your money. That's what you'll discover in this book.

Books that teach investing in the stock market often assume that with the necessary tools to distinguish promising companies, investors can go ahead and build a portfolio that will grow nicely over the years.

Yet researchers have shown that our emotions and behavior contribute far more to our success than the value of any publicly traded company.

The latest studies also show that spending our energy and time looking for stocks that will make us richer essentially makes us poorer.

Indeed, you will discover that it is more advantageous to buy the whole haystack than to spend your time looking for the needle. This is a counterintuitive strategy, but one that will pay off and allow you to join the leading group of the best investors on the planet. You'll beat the returns of financial professionals – those highly paid, educated people who drive around in luxury vehicles to manage millions of dollars from their downtown towers.

lessons are at the heart of the book you are holding in your hands (and that I hope is catchier than a Toyota owner's manual!).

"An ignorant mind is precisely not a spotless, empty vessel," wrote the famous psychologist David Dunning, "but one that's filled with the clutter of irrelevant or misleading life experiences, theories, facts, intuitions, strategies, algorithms, heuristics, metaphors, and hunches that regrettably have the look and feel of useful and accurate knowledge."[4]

I can relate to that statement. I didn't feel like I was doing anything wrong when I started investing for a dramatic market decline several years ago. In fact, I would have reacted badly if someone had told me I didn't know what I was doing.

That person would have been right. I didn't know what I was doing.

The Israeli diplomat Abba Eban used to say that "nations and men will always find the right solution after all other solutions have been tried." I have concluded that investors work the same way.

To understand why, let's go to the heart of London, at the beginning of the 18th century, when the most prominent people in society were obsessed with a few pieces of paper.

4 Steven Novella, "Lessons from Dunning-Kruger," NeuroLogica blog, November 6, 2014.

Sir Isaac Newton had first invested in the shares of the South Sea Company in February 1720. Within a few months, his investments had doubled in value. Convinced that the company was in the grip of a speculative mania, Newton decided to realize his profit and sell his shares on April 19 of the same year.

Far from falling, the price of shares continued to rise. Newton was no longer getting rich, while his friends and acquaintances continued to see their fortunes grow daily.

Two months after selling, Newton abandoned his reserve. On June 14, he decided to invest again by putting most of his money into the company's stock.

In September, a fraud scandal at the South Sea Company erupted, and its shares quickly lost 90% of their value. Many of the company's top executives were imprisoned in the Tower of London, including members of parliament, and they had their assets confiscated. The scandal was so resounding that it plagued the British financial markets and undermined business formation for generations.[5]

By some accounts, Newton lost 20,000 English pounds in the collapse of the South Sea Company, the equivalent of 20 million in today's dollars.[6]

"I can calculate the motions of the heavenly bodies, but not the madness of people," the physicist is claimed to have concluded.

It is said that Newton was so affected by this debacle that, until his death, he was unable to bear the mention of the South Sea Company's name in his presence.

This episode illustrates how even the most rational and brilliant people can succumb to a speculative mania which is only obvious in retrospect.

The South Sea Company's speculative mania was one of the most devastating of its time. But nearly a century earlier, another bubble had hit elsewhere in Europe: the Tulip Crisis.

A bulb for a house

“Playing” in the stock market

The experiences we have with the stock market in our youth can define our idea of it for the rest of our lives.

Watching your uncle lose his retirement fund in the dot-com bubble implosion of the early 2000s may have scared you so much that you never wanted to “play” the stock market.

Or maybe you remember the dramatic drop in the markets at the beginning of the COVID-19 pandemic. On some days, they lost 11% of their value by lunchtime – a collapse so great that you have to go back to the 1930s to find a point of comparison.

Between 1968 and 1985, the stock markets hardly rose in value. In the 1990s, they only went up. In the 2000s, they experienced crash after crash. In the 2010s, they took off like a rocket, only to fall sharply (and temporarily) in 2020, during the COVID-19 crisis. And then in 2022 they fell again.

All this market volatility can obscure one truth: the stock market has provided generous returns for generations – even after accounting for bubbles, declines, and crashes.

The Dow Jones, an oft-cited stock market index that measures the performance of 30 major U.S. companies, began the 20th century with a value of 66, and ended it with a value of 11,497.

If we include in our calculation the reinvestment of dividends, the portion of corporate profits returned in cash to shareholders usually two or four times per year, $1 invested in the largest U.S. companies at the beginning of the 20th century was worth more than $18,500 a century later.

How can we have a bad experience investing in a market that has turned $1 into $18,500?

By succumbing to the traps that the market sets for us.

with Pabrai at his offices in Irvine, a city south of Los Angeles. I was excited, as he does not give many interviews.

Pabrai immediately put us at ease. Affable and smiling, obviously happy to share his knowledge and wisdom, he showed us around his premises, including a sunny, impeccably tidy room where he sits to read and reflect. At the corner of a corridor, he also showed us a closed door that led, he said, to a small room where there was a bed.

“It’s for napping,” he told us. “I take a nap almost every afternoon. I always think better when I have a rested mind.”

After spending several hours talking about his career and answering our questions, Mohnish invited us to continue the conversation over a spicy BBQ beef and kimchi dinner at his favorite Korean restaurant.

56%

This is the share of the U.S. stock market in the total value of the world’s stock markets.

He told us how market downturns fail to affect him. At the worst of the 2008–2009 crash, for example, the value of the portfolio he manages for his clients fell by 67%. Huge investment banks like Bear Stearns and Lehman Brothers were toppling like dominoes.

“Years later, my wife stumbled across a letter to my investors from 2008,” he said. “She was startled when she saw the 67% drop. She said, ‘Funny, I didn’t notice any change in you that year. You didn’t look any different.’ Every once in a while, the market goes through a major correction. There’s nothing you can do about it. What’s the point of panicking?”

The investor also explained how he had managed to achieve spectacular returns in the stock market over the years by building, like Warren Buffett, a portfolio

Are professional investors able to achieve stunning long-term returns in the markets?

In almost all cases, no. And I have the numbers to prove it.

Twice a year for more than 20 years, New York-based financial information firm S&P Global has published its much-anticipated S&P Indices Versus Active report, better known as SPIVA.

The SPIVA reports measure the performance of active managers against the performance of the overall stock market in the U.S. and around the world. In short, this report card allows us to see if professional investors can find the famous gems before anyone else and build portfolios that generate profits faster than the overall market. It's like their report card, handed out on the last day of school before summer vacation.

This report is interesting because it is neutral, and it compares apples to apples. It is easily found on the internet, but I doubt that many professionals mention it when they meet clients.

SPIVA's mid-year 2022 report shows that 55% of professionally managed U.S. large-cap equity funds underperformed the S&P 500 over the past year, 86% underperformed over the past three years, and 90% underperformed over the last decade.[12] Results are similar formid-cap and small cap funds and are worse for growth funds which, as their name suggests, are supposed to deliver… growth.

Decoding the S&P 500

I have tried to banish the use of alphabet soup financial jargon in this book, but I cannot avoid it entirely. Let me be brief.

When I talk about the performance of the U.S. stock market, I'm referring to the performance of the S&P 500 index, the most authoritative index. This index represents the 500 largest U.S. companies listed on the New York Stock Exchange and the Nasdaq Stock Market (also located in New York and

Kings of Wall Street

Almost all professionals and institutional investors can't beat the long-term market return. But what about the kings of Wall Street?

These multi-millionaires and multi-billionaires whose mission on Earth is to offer an explosive and enviable return to their wealthy clients must surely have a magic touch. If not, why invest with them?

I am talking about the people who run hedge funds, which are funds that can invest in all sorts of assets and strategies. Equities, land, private companies, currencies, metals, whatever: their only objective is to maximize returns while limiting losses.

After his studies in finance, management and engineering, Ian Gascon, portfolio manager and president of Idema Investments, was able to personally meet many of these investors in New York. He was then working at a large financial institution where he oversaw institutional portfolio management.

"I had to study their strategies, their ways of investing," Gascon explained in an interview. "I finally realized that most of these wonderful managers, the most sophisticated people on the planet in terms of portfolio management, people who make millions, if not billions, were adding very little long-term value. They were essentially running a big marketing machine."

This story reminds me of New York-based manager David Einhorn. Starting from scratch, Einhorn had tremendous success in the early 2000s, averaging 26% returns per year for a decade with his firm Greenlight Capital.

That kind of performance attracts attention: his investment talent made him a celebrity. Einhorn became a billionaire in his 40s, even though his cherubic looks made him look 10 years younger. He was named one of *Time* magazine's 100 Most Influential People in the World.

2003	2023
1. General Electric	1. Apple
2. ExxonMobil	2. Microsoft
3. Microsoft	3. Amazon
4. Citigroup	4. Alphabet (Google) Class A shares
5. Pfizer	5. Berkshire Hathaway Class B shares
6. Johnson & Johnson	6. NVIDIA
7. IBM	7. Tesla
8. Procter & Gamble	8. Alphabet (Google) Class C shares
9. AIG	9. ExxonMobil
10. Wal-Mart	10.UnitedHealth Group

With the exception of Microsoft and ExxonMobil, the must-have companies of 2003 were no longer at the top 20 years later – and 20 years is a short time in an investor's life. General Electric, the largest company in 2003, even flirted with bankruptcy and is now the 85th largest company in the S&P 500.

For this reason, investors should be careful before trying to build a portfolio of "winning" companies. Every era has its winners.

If only it were possible to always bet on the right companies, the ones that make their mark and that everyone seems to do business with… That's what the next chapter is all about.

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9 William Green, *Richer, Wiser, Happier: How the World's Greatest Investors Win in Markets and Life*, Scribner, 2021, p. 3.
10 Burton Malkiel, *A Random Walk Down Wall Street: The Time-Tested Strategy for Successful Investing*, W. W. Norton, 2009, p. 264.
11 Warren Buffett, Berkshire Hathaway shareholder letter, 2008, p. 16.
12 SPIVA website, consulted by the author on October 13, 2022.
13 "Missing Out: Millennials and the Markets," Ontario Securities Commission, November 27, 2017.
14 "Our results," Caisse de dépôt et placement du Québec website, 2021.
15 "Harvard's billion-dollar farmland fiasco," GRAIN report, September 6, 2018.
16 Tim Edwards et al, "SPIVA Institutional Scorecard Year-End 2021," S&P Global, September 8, 2022.
17 Gregory Zuckerman, "This Is Unbelievable: A Hedge Fund Star Dims, and Investors Flee," *The Wall Street Journal*, July 1, 2018.
18 Burton Malkiel, *Random Walk*, p. 167.
19 David R. Harper, "Hedge Funds: Higher Returns or Just High Fees?" Investopedia, April 12, 2021.
20 Raymond Kerzérho, "The Terrible Truth about Hedge Funds," PWLCapital, August 23, 2021.
21 Warren Buffett, Berkshire Hathaway shareholder letter, 2016, p. 24.

22 Hendrik Bessembinder, “Do Stocks Outperform Treasury Bills?” Arizona State University, August 22, 2017.
23 Thomas Macpherson, “Bessembinder Rocks the Investment World,” GuruFocus, October 19, 2017.

Mutual funds vs. ETFs

Mutual funds pool investors' money and give them ownership of a portion of the assets in the fund. The mutual fund is administered by a manager, possibly affiliated with a bank or other financial institution, who makes individual investment decisions based on various objectives, such as preservation or growth of the money invested.

ETFs, on the other hand, are funds that pool together all the stocks in a given stock market index or a subsection of the market (retail, energy, etc.). They are not actively managed by a manager, and this allows them to charge very low fees.

Another advantage of index funds and ETFs is that their expense ratio – the cost charged annually by the fund provider to the investor – is generally extremely low. This differentiates them, for example, from mutual funds, which contain stocks that are hand-picked by managers.

While mutual funds can have annual fees that are between 0.5% and up to 2.0% of the value of the investment, index funds and ETFs have fees that are generally less than 0.2%, and sometimes as low as 0.03%.

At first glance, paying 1% or 2% in fees may seem reasonable. After all, we pay sales taxes at a higher rate than this on other products that we buy, right? So why should we care about a measly 1% or 2%?

The difference between paying 0.03% and 2% in annual expense ratio is barely noticeable in the early years, but becomes as vast as the Grand Canyon over our investing lifetime. As we will see later in this book, this can easily amount to over 50% of our expected returns over many years of investing – evaporated in fees.

“The book was not well received in Wall Street,” Malkiel recalled years later on the *Animal Spirits* podcast. “My idea was called ‘crazy.’ [People thought] that obviously you wanted professionals to manage a portfolio.”[24]

Two years later, in 1975, John Bogle – a Princeton economics graduate whose parents had lost everything in the Great Depression – created the forerunner of index funds. Offered under the banner of Vanguard, an investment firm that Bogle set up, the fund was simply made up of the 500 companies that made up the S&P 500 index.

Bogle, who was 46 at the time, set a goal of raising $150 million in investments to launch his new fund. Due to a lack of interest, he raised just over $11 million. For years, his fund was called “Bogle’s Folly” by mockers.

“It totally failed,” recalled Burton Malkiel. “Jack picked up just an enormous amount of criticism. It was a success in that it worked, but it was not a marketing success. It remained a very small fund for a long time.”[25]

One of the criticisms often made was that passive investing was “un-American,” implying that the American way was for investors to take risks to get exciting results in the stock market, not give up on beating the market before the game even started.

The chairman of U.S. asset management giant Fidelity said he “cannot believe” that most investors would be satisfied with receiving only “average” returns – an analysis fraught with bad faith, since achieving average returns over a long period of time produces an overwhelming enrichment that is virtually impossible to surpass, as we will see.

Bogle, for one, said he wasn’t affected by this cold reception to his cherished idea. “The more dissent I got, the more confident I was that I was right,” he remembered years later. “I’m that kind of a contrarian person.”[26]

It took several years for investors to get interested in index funds. Once they did, they never went back.

Morin worked for the Montreal Stock Exchange for 11 years. Later, he accepted an offer to run the Mauritius Stock Exchange and set up a regional stock exchange in West Africa, in Abidjan, before accepting the position of CEO of the Pakistan Stock Exchange, where he lived and worked for almost two years.

Out of a population of 210 million people, Pakistan had barely 250,000 investors, Morin realized. From generation to generation, Pakistan's elite appropriated all the wealth.

"The Pakistan Stock Exchange was a huge challenge in terms of investor protection. A handful of brokerage firms dominated the market. Our task was to democratize stock market investing. One of the ways we did that was by launching the first ETF in the country's history and enhancing the investor protection fund."

It was while hiking in the Swiss Alps in the 1990s that Morin had the idea of creating a portfolio management firm that would invest only in index ETFs.

Few people knew about ETFs at the time, and it took him several years to realize his dream.

Richard Morin is now President of Archer Portfolio Management, a firm that uses only index funds and index ETFs to build diversified, tax-efficient portfolios. With eight advisors, the firm manages $300 million in assets for approximately 700 families.

"Our average client has a portfolio of about $400,000, and we put 100% of it into stock and bond ETFs, based on the profile we determine together," says Morin. "There must be a good fit. Sometimes we politely turn clients away because they have a different vision than we do, and I know they won't be happy with us."

The challenge for firms like Archer, says Morin, is to make themselves known. In an industry that is driven by volume, large financial institutions advertise heavily and capture most of the market.

65% of European mutual funds had experienced more volatility than the market sectors in which they invest.[31] In short, professional investment management firms failed to deliver on this promise.

And if passive investing is so risky and dangerous, you have to believe that the news didn't reach Warren Buffett's ears. The Omaha billionaire famously said that in his will, he instructed his executors to invest most of the funds he would leave to his wife in a Vanguard index fund that tracks the S&P 500.[32]

Whether our investments take the form of mutual funds, index funds or ETFs, they are mostly composed of two major asset classes: stocks and bonds. Acting as the yin and yang of our investment portfolio, these assets have the dual role of making us richer and keeping us sane when a market storm hits.

How much should we have in stocks and in bonds? We'll talk about this in the next chapter.

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24 Ben Carlson and Michael Batnick, "A Random Talk with Burton Malkiel," Animal Spirits podcast, October 2, 2020.
25 Ibid.
26 Stephen J. Dubner, "The Stupidest Thing You Can Do With Your Money," Freakonomics podcast, September 21, 2017.
27 John C. Bogle, *The Little Book of Common Sense Investing: The Only Way to Guarantee Your Fair Share of Stock Market Returns*, Wiley, 2017, p. 184.
28 Warren Buffett, op. cit., p. 24.
29 Ben Carlson and Michael Batnick, op. cit.
30 Stephen A. Jarislowsky, *Dans la jungle du placement*, Les Éditions Transcontinental, 2005, p. 27.
31 Tim Edwards et al, "The Volatility of Active Management," S&P Global, August 2016.
32 Emmie Martin, "Warren Buffett wants 90 percent of his wealth to go to this one investment after he's gone," CNBC, February 27, 2019.

confess that half of the time I worry that I have too much in equities [editor's note: stocks are sometime called equities – in the context of the stock market, the two terms are interchangeable], and the other half of the time that I don't have enough in equities… Finally, we're all just human beings, operating in a fog of ignorance and relying on our circumstances and our common sense to establish an appropriate asset allocation."[37]

Can I invest even if I have debt?

It depends on the type of debt and the interest rate associated with it. Having a reasonable amount of mortgage debt (no more than 2.5 times our annual household income before taxes) should not prevent us from investing. On the other hand, a person who has credit card debt should pay it off before investing, because not only are they not getting rich, they're making the credit card issuer richer by paying them interest.

Do I have to invest if I contribute to a retirement plan?

Many people with strong retirement plans, public service workers for example, may wonder if it is necessary to save and invest over and above what is automatically deducted from their pay. The answer to that question is yes, and here's why.

We all know someone who would like to quit their job at 60 (or 55, or 50…) but can't because they are handcuffed by the constraints of their retirement plan. Those who experience this tend not to be very happy with their lot…

On the other hand, if we have saved and invested a portion of our salary over a period of years, and if our investments allow us to do so, we will have the freedom to leave our job when we want to, work part-time, change fields, Around me, I've seen that investors are unpredictable when it comes to letting their investments work in peace.

Some of my friends and relatives could set up a portfolio of index ETFs, add to it regularly with their savings, and that was it. When a big market storm came along, I would ask them how they reacted. "I didn't do anything," they said. "I know it's going down, but I don't pay attention to it."

In other cases, it was more difficult. A friend who had a balanced portfolio of index ETFs couldn't stand to see the value of his account fluctuate while stocks like Apple or Tesla rose dramatically.

Each time I contacted him, he informed me of new decisions he had made regarding his investment portfolio. First, he had transferred it to a high-fee portfolio manager recommended by a friend. Unhappy with the results, he later transferred again, this time to a professional with an even more glittering track record who dealt with high-net-worth clients, some of them very well known. Then, his attention got caught by a "brilliant and Cartesian" friend who was working on programming investment algorithms "capable of generating returns of 10% per month." These algorithms have never materialized to this day.

Will my friend eventually leave his investments alone? No matter how much I deploy logic, arguments and statistics, a new shiny object is always likely to appear, rekindling his hope of a quick and lightning-fast enrichment.

I had a difficult discussion about this same subject with another person I know.

This person was nearly 50 years old, had no retirement plan or real estate, and had saved only $30,000 since the beginning of his career. His goal was to grow that money to achieve financial independence and stop working as soon as possible.

"I understand the benefits of index ETFs and long-term investing," he told me. "But my goal is to get big returns. At my age, with my level of assets, I don't have time to waste. I don't want to see my investments grow by $1,500 a year: I

Our main task as investors is to never lose sight of the fact that it is compound interest that makes us rich, not the few exceptional years that can be obtained if we are in the right place at the right time and have made the right investment choices.

Compound interest needs time to unfold its unique powers. It doesn't take kindly to being interrupted along the way because we want to invest in a small biotech company that is supposed to give us an exciting upside, or because a drop in the market causes us to sell our investments.

One of my favorite studies on the subject was made by the asset management firm Fidelity.

The firm's executives reportedly wanted to know which of their millions of clients had achieved the best long-term returns in terms of investment growth.

The result: the clients who had the best returns were those who had forgotten they had an account with Fidelity.[55]

Compound interest is the foundation upon which our success as investors rests. The prospect of not letting our investments do their work as soon as possible and for as long as possible should scare us.

I'm not saying that we shouldn't spend a penny in our life, and that we'll only be rich when we're old. I believe that throughout one's life, one must achieve a balance between spending on the one hand, and saving and investing on the other. I also believe that, for most of us, this balance is not achieved. All the attention in our society is focused on spending, and very little on saving and investing.

Understanding how compound interest works is one way to rectify this imbalance.

When it comes to wealth, the paths we think are shortcuts are often mirages. The sooner we realize this, the sooner we can join the group of investors who really stand out – those who are not in a hurry.

42 Oliver Sung, “Charlie Munger: 2021 Daily Journal Annual Meeting Transcript,” Junto Investments, February 26, 2021.
43 Jason Zweig, “False profits,” Jasonzweig.com, June 23, 2015.
44 David Zuckerman, “Initial Public Offerings Historical Returns,” Financial Planning Association, January 31, 2012.
45 Ibid.
46 Alessio Emanuele Biondo et al, “Are Random Trading Strategies More Successful than Technical Ones?” *PLoS ONE*, July 11, 2013.
47 Retirement 101, “Returning to the Original Strategy,” July 15, 2020.
48 Ibid.
49 Andrew Hallam, *Millionaire Teacher: The Nine Rules of Wealth You Should Have Learned in School*, Wiley, 2017.
50 Andrew Hallam, “Do I Regret Selling Stocks Worth $700,000?” Andrewhallam.com, September 2, 2011.
51 Claire Boyte-White, “How Dividends Affect Stock Prices,” Investopedia, July 26, 2020.
52 Simon Sinek, *The Infinite Game*, Penguin, 2019, p. 12.
53 Fox Butterfield, “From Ben Franklin, a Gift That’s Worth Two Fights,” *The New York Times*, April 21, 1990.
54 Stephan A. Schwartz, “Ben Franklin’s Gift that Keeps on Giving,” *American History*, February 2009.
55 Myles Udland, “Fidelity Reviewed Which Investors Did Best And What They Found Was Hilarious,” Business Insider, September 4, 2014.
56 Jim O’Shaughnessy, “Jason Zweig – Psychology, History & Writing,” Infinite Loops podcast, January 28, 2021.

Three days before Buffett bought his first stock, *The New York Times* included the headline, “Japanese Smash Bandung Lines.” The next day, the newspaper proclaimed, “Japanese Invade New Guinea at 2 Points; Claim Rangoon, and Push West in Burma.” The next day: “Foe Clearing Path to Australia; reports 98,000 give up in Java.”

Oh yes, and the New York Stock Exchange had just crashed, wiping out all the gains made since the end of the Great Depression.

Rushing into the markets during World War II, Buffett would nevertheless enjoy phenomenal returns for the rest of his life. But if he had been scared by current events, he probably never would have invested.

Some say that the times we live in are more uncertain. That the debt of countries makes economic growth more precarious. That an epic recession or a gigantic political crisis is about to happen.

I would answer that times have always been uncertain. Violent events have always threatened world peace. The risks of recession and depression have always been with us.

Here is a short list of negative events that have occurred in the last decade:

- Russia launches an illegal, large-scale invasion of Ukraine, thousands are killed.
- A deadly insurrection is perpetrated against the Capitol in Washington, D.C.
- The COVID-19 pandemic kills millions of people and causes a stock market crash and a global recession.
- Iranian-backed rebels attack oil refineries in Saudi Arabia.
- The United States declares a trade war on China.
- North Korea conducts a sixth nuclear test.
- Russia illegally interferes in the U.S. presidential election. To everyone’s

65 Larry Swedroe, "You Make More Money Selling Advice Than Following It," CBS News, May 20, 2010.
66 Craig Botham and Irene Lauro, "Climate change and financial markets," Schroders, February 2020.
67 Swiss Re Institute, "The economics of climate change: no action not an option," April 2021.
68 Christopher Flavelle, "Climate Change Could Cut World Economy by $23 Trillion in 2050, Insurance Giant Warns," *The New York Times*, April 22, 2021.
69 Nicolas Bérubé, "Un optimiste dans la grisaille," *La Presse Affaires*, February 19, 2013.
70 Ibid.

In addition to fearing corrections, we are also generally terrified of paying too much for the investments we buy.

This fear can manifest itself when we hesitate to invest because the markets are at all-time highs. “The markets have gone up 31% in the last year,” we might say. “This is not the time to invest, everything is way too expensive!”

Some people wait for a market downturn to invest, much like they wait for a sale to buy a TV or a pair of skis at a discount.

I can understand this impulse: like everyone else, I don’t like paying full price for everyday items. But what works for a new set of skis does not work for our investments. When it comes to investing, this strategy will make us poorer.

The truth is, reaching a new high is the norm for the stock market, not the exception. So if you delay your investing because the market has had a strong run, or because it’s at new highs, you could be delaying for a long time!

The S&P 500 hit a record high once every 20 business days on average since 1928, writes financial writer Ben Carlson.[76]

Between 1926 and 2019, he calculated, the S&P 500 was up nearly three years out of four. The year after a bullish year? The index was up… nearly three years out of four.[77]

After a year that was up more than 10%? In the year following such growth, the S&P 500 was up… nearly three years out of four.

And after a spectacular, absurd, Himalayan rise – say, a 50% rise in 12 months? After such a performance, we are clearly due for a good correction, right?

Well, no. Historically, the return for the year following an incredible year is indeed negative – it averages −1.5%. But after a 50% up year, the average market return three years later is 42%, and 66% five years later. And that doesn’t even include dividend payments.

“Predicting the future path of the stock market based on what it has done over the past year is much harder than it sounds,” concludes Carlson.[78]

After studying finance, Turcot was hired by a large financial institution. He became a financial planner.

“I covered 14 bank branches. I fell into the sales world.”

Turcot received a base salary of $45,000, plus commissions on the financial products he sold. He was responsible for his own travel expenses.

“My job was to convince a client to transfer his $200,000 from another financial institution to us,” he says. “It was all about the new money we were bringing in. There was no incentive to take care of existing clients. I wanted to take care of them, but I didn’t have the time. When a banker is responsible for 300 families, it’s impossible for him to take care of those people. So he handles emergencies.”

Turcot was not allowed to sell index ETFs. His clients were left with high-fee mutual funds in their portfolios. “It wasn’t what I wanted for my clients, but my hands were tied.”

What did the customers say? They said nothing, because they didn’t realize they had inferior products.

“They weren’t interested because they didn’t see the fee amount. And even when it’s listed, it’s not the full fee, just a portion. The information was buried in statements that were hard to understand.”

Can an independent manager move to the Seychelles with our money?

Not if the funds are held with a custodian. Funds and assets administered by fund managers are often held with a custodian: many banks, accounting firms or law firms offer this service. In the U.S., one of the oldest banking institutions, JPMorgan Chase & Co., is also one of its largest custodian banks. In short, the manager takes care of assets selection in our investment account, but he or she does not hold the money and is not authorized to make withdrawals: only the client is authorized to do so.

Investors in the United Kingdom can look for the Vanguard LifeStrategy family of index funds, which are offered in different versions, from 20% in stocks to 100% in stocks, and have a management fee of 0.27%.

Studies have shown that investors who buy all-in-one funds tend to behave better and end up with more money than investors who buy multiple funds, because all-in-one funds make it harder to try to speculate or time the market.

Choosing ESG investing

When we buy an ETF, we become a co-owner of thousands of companies. We may not agree with the actions of some of these companies – for example, they may produce fossil fuels, weapons, or tobacco products. Buying the "whole market" in this way can be contrary to our values.

To address this, some ETFs exclude certain companies based on environmental, social and governance criteria, an investment choice known as ESG.

ESG funds may exclude different types of industries, including alcohol, civilian firearms, controversial weapons, conventional weapons, private prisons, gambling, etc. They however sometimes keep the "least bad" of the companies in an industry, so I encourage you to read the details of the funds you are interested in.

ETFs that meet ESG criteria are increasingly in demand, with projections showing that they will account for the majority of new investments over the next few years. This trend has begun to push companies to do better on the environmental front to avoid being excluded from these new financial products.

To give an example, BlackRock, iShares MSCI USA ESG Enhanced UCITS ETF (EDMU) offers exposure to a portfolio of U.S. stocks from companies that have pledged to exceed decarbonization for an EU Climate Transition

30 years? The platform won't prevent investors from pulling out money during a stock market crash, but at least it can make them think twice before they sell.

Most robo-advisors make money by charging fees that represent a small portion of the portfolio's value – usually less than 1%. Others, like Schwab Intelligent Portfolios, charge no fees but require a minimum of $5,000 in the account.

However, the strength of robo-advisors (removing humans from the activity of investing) is also their Achilles heel: when we invest our money, we like to be able to talk to someone. These platforms have understood this and now offer their clients the opportunity to call, email or schedule a video chat with a human advisor who can help them optimize their portfolio.

For an even more personalized one-on-one meeting, investors can also hire an outside independent financial planner on a fee-for-service basis who can analyze their finances from start to finish, write a detailed report, and answer their specific tax or retirement questions.

For example, the financial planner will be able to suggest an asset allocation between stocks and bonds that suits the client's age, income, and future needs.

The client can then set up this allocation in their robo-advisor or in their discount brokerage accounts.

Having a financial life analysis done by an independent financial planner can cost a few thousand dollars, a bill that increases if several types of assets are involved, such as real estate investments.

Advantages and disadvantages of automated management platforms

Advantages

- Lower than average expense ratio.
- Diversified ETF portfolios at the click of a button.

reader, try to put yourself in the shoes of the famous detective.

How would Sherlock Holmes approach the investment world?

Once all the facts are in and his few oblique questions are answered, I imagine the famous detective walking past the high-fee mutual fund salesmen and deciding to put his pounds into a portfolio of index ETFs, before forgetting about them and moving on to his next investigation.

As you read through this book, some may say that I've made up my mind. That I am ignoring other valid methods of stock market investing to give full play to ETF investing. I will answer that I have never been guided by any philosophy or investment method that I would have fallen in love with: I base myself on facts. As I explain in the Preface, I did not start my quest with the answers presented in this book in mind. I have accumulated this information and these principles year after year, often at the cost of humiliating mistakes.

This book does not attempt to tell you what to do, but rather to present a method of investing that has been independently studied, rigorously researched, and has produced results that are more impressive and reliable than virtually any other way to approach the markets.

I know that for some, the advice to "buy ETFs and move on" is not a valid solution. It's not satisfying; it's not a philosophy that reflects who they are and what they want to accomplish in life.

If this is your case, I'm not saying that you shouldn't be an active investor, that you shouldn't do stock picking. I want you to know that outperforming the market indexes (even by 1% or 2% annually) is an exceptional achievement, often impossible to sustain for more than a few years, and that examples of underperformance are as numerous as success stories are rare.

A little removed from the world

ABOUT THE AUTHOR

NICOLAS BÉRUBÉ is an award-winning financial writer and reporter with *La Presse*, one of Canada's largest news organizations. He lived in Los Angeles, California, for seven years as the paper's first West Coast correspondent, has received a National Newspaper Award and was a finalist for the Michener Awards, one of the highest honors in Canadian journalism. Initially published in French, *De Zéro à Millionnaire* was an instant bestseller in Canada.