The Standfast Report

COMMENTARY FOR INTELLIGENT INVESTORS
P.O. Box 1694, Boone, NC 28607 - Issue #7

Dear Reader, Wilkesboro, NC, January 7, 2024

Every investor must ultimately fall somewhere on the spectrum of passive vs active investing. The most passive investors only own passively managed total market index funds while the most active investors only own individual securities that they themselves select.[1] The former requires almost no time or effort while the latter requires a great deal of time and effort. It is important for each investor to determine what sort of investing will be the most successful for them over time.

A highly experienced active investor recently wrote to me, “Buying and holding an index fund will most likely do better than most people.” That is a significant statement given that it comes from a man who makes his living by actively managing investments for other people. It is an acknowledgement that it is very hard to be successful as an active investor and that it is very easy to be successful as a passive investor.

Hiring a professional investment manager saves time and adds cost to choosing your place on the spectrum. This may produce a legitimate benefit for some investors, but all investors should know that cheap, passively managed total stock market index funds have historically returned more to investors than actively managed funds (in no small part due to much lower fees).[2] In order

---

[1] Individual securities make up a relatively significant portion of my own investments because I enjoy my process of analyzing businesses with a view to investing in them. Indeed, some of my analyses have been featured in this newsletter. However, as I wrote in issue #4 of *The Standfast Report*, I expect to always have a large portion of my 401k invested in very broad-based, very cheap U.S. stock market index funds because I believe in the long-term wisdom of such investing and because such funds are the only funds available to a large portion of my 401k that I also like.

[2] Here I quote footnote #1 from issue #4 of *The Standfast Report:* I recommend the book *Common Sense on Mutual Funds* by John C. Bogle. Mr. Bogle was the founder of Vanguard and is credited with starting the first total stock market index fund accessible to private investors. Warren Buffett has expressed appreciation for what Mr. Bogle has done for the American investing

to justify hiring a professional investment manager, one must either 1) believe that the manager has outperformed cheap, passively managed total stock market index funds and that they will *continue* to do so over the long-term (this is a long shot) or 2) be content knowing that the manager will probably underperform cheap, passively managed total stock market index funds over the long-term.

The point is this: The odds are you will do better long-term with a very simple passive strategy than you will with an active strategy regardless of whether you implement your strategy yourself or hire a professional to do it for you.[3]

In issue #6 of *The Standfast Report* I wrote that I had moved about 15% of my 401k from a total U.S. market index fund into bond funds. Shortly thereafter I moved it back to the single index fund. My reasons for this reversal included 1) the realization that I have a great deal of time in which to reap returns from equities before I must shift capital into fixed income assets for retirement, 2) the desire for simplicity and 3) the fact that I don't particularly like or understand bond funds.

For those interested in finance and investing, I recommend the following.

My best recommendations for investors:

- If I could recommend only one source for investing wisdom, it would be the book *Common Sense on Mutual Funds* by John C. Bogle. If you wish to take the easy road to successful investing and want to understand why it makes sense, then this is the book for you.
- If you fancy yourself an active investor then I would recommend that you watch or listen to *all* of the Berkshire Hathaway annual shareholder meeting recordings that are available. There are at least 29 of these recordings online and each is between about 2-3 hours long, so there is probably at least 80-90 hours of material. *Hint: Don't waste your time with books and articles *about* Warren Buffet...Listen to the man himself. He and Charlie Munger have shared a great deal of investing wisdom at these meetings.*
- If you can't consistently spend at least 2-3 hours per day on research and analysis then you will probably be better off with a simple passive investment approach than with an active investment approach.

Books:

- *Central Banking 101* by Joseph Wang (2021) is an excellent explanation of the financial system.

public. The gist of Mr. Bogle's book is that cheap, passively managed total stock market index funds have historically returned more to investors than actively managed funds, that most actively managed funds are expensive and that the interests of active managers are not normally fully aligned with the interests of their investors. If I could recommend only one source for investing wisdom, it would be *Common Sense on Mutual Funds*.

[3] Each financial account should be invested in accordance with its specific objective. Essentially, if one expects to need the money of a given account soon or urgently then one should keep it invested in assets that are stable and liquid such as cash. The more time is expected to elapse before the need arises or the less urgent the need is expected to be when it does, the more risk can be taken for potentially greater returns in the interim. This is why your emergency fund should consist only of cash and why a 65 year-old's 401k should be heavily weighted in fixed income. Of course, there can be exceptions and nuances to this principle.

- *How to Lie with Statistics* by Darrell Huff (1954).
- If you want to feel good about the financial system and the government officials who oversee it: *The Courage to Act* by Ben S. Bernanke (2015), *Stress Test* by Timothy F. Geithner (2014), *On the Brink* by Henry M. Paulson (2010) and *Firefighting* by Ben S. Bernanke, Timothy F. Geithner and Henry M. Paulson (2019).
- Other books: *Den of Thieves* by James B. Stewart (1991), *The Smartest Guys in the Room* by Bethany McLean and Peter Elkind (2003), *Too Big to Fail* by Andrew Ross Sorkin (2009), *America's Bank* by Roger Lowenstein (2015), *The Power and Independence of the Federal Reserve* by Peter Conti-Brown (2016), *Fed Up* by Danielle DiMartino Booth (2017).

Shows and podcasts:
- *Thoughtful Money* with Adam Taggart for in-depth interviews with finance and investing experts.
- *The Real Investment Show* with Lance Roberts (plus any of Lance's articles and newsletters) for technical but grounding takes on how to think about money and investing.

Other resources:
- Fidelity.com for lots of tools and resources, more if you have an account.
- Finance.yahoo.com for convenient access to stock prices, stock charts, relevant news, third-party analysis and much more.
- Macrotrends.net for convenient access to historical financials, other key historical metrics and much more.
- Finviz.com for a high level stock screener and much more.
- The SEC's EDGAR system for many financial reports and filings.[4]

I did not make any dramatic changes to my total portfolio in December or in the first week of January. I added a few small equity positions and trimmed a few long-standing core positions that I have generally been accumulating over the last two years or so. I realized some losses but mostly realized profits. Overall I increased my cash & cash equivalents slightly. I expect many investment opportunities in 2024, and I hope to have time to analyze and take advantage of some of them.

Finally, if you are not sure how to invest your money, then you could park it in 4-week T-Bills while you decide what to do with it long-term.[5]

This newsletter is a hobby of mine, currently free, and has no publication schedule commitment. No subscription or automatic publication notification is currently available. There may or may not be future issues.

[4] Any serious active investor should dig through 10-Ks and 10-Qs (annual and quarterly financial reports), not just press releases, articles, books and podcasts. Basically all 10-Ks and 10-Qs for all American publicly-traded companies (and much more) are available via EDGAR. See: https://www.sec.gov/edgar

[5] It is easy to purchase 4-week T-Bills directly from the U.S. Treasury via https://treasurydirect.gov/. There is a lot of talk from "professionals" (who want to sell an alternative financial product) about how clunky this government website is, but in fact it's not. It is simple and works great for its purpose. If you follow the instructions you should be fine. T-Bills can also be purchased relatively easily via any major brokerage firm such as Fidelity or Schwab with the added benefit that they can also be easily sold prior to maturity.