THE INVESTOR'S MANIFESTO

Preparing for Prosperity, Armageddon, and Everything In Between

WILLIAM J. BERNSTEIN

WILLIAM BERNSTEIN is a financial theorist. He is also a retired neurologist and cofounder of a financial investment advisory firm, Efficient Frontier Advisors. Dr. Bernstein is the author of several books on finance and economic history including *The Four Pillars of Investing* and *The Intelligent Asset Allocator*. Dr. Bernstein is an advocate of modern portfolio theory which suggests investment returns are determined more by the asset allocation of the portfolio than by the selection of individual investments which outperform the market.

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MAIN IDEA

The financial meltdown of 2008–2009 has dramatically changed the long-term investment landscape. As surprising and counterintuitive as it may sound, by the perverse calculus of finance, this has created a massive buying opportunity for those who know what they're doing. The stocks and bonds of some once-mighty corporations have been battered and as they recover – as they always have in the past – generous returns will be enjoyed by those investors who are brave, disciplined and liquid.

To prosper as an investor in the years ahead, understand and operate by these five principles:

The five key principles of savvy investment activities

1. Don't be greedy – risk/return always applies
2. Diversify as widely as possible at all times
3. Always be wary of the investment industry
4. Know your financial market history inside and out
5. Learn how to design and manage a portfolio

"Over the past three decades, the powers that be have handed investors, particularly those saving for retirement, a very raw deal indeed. First and foremost, the traditional pension plan has been replaced with an investment mess of pottage: poorly designed, overly expensive, and thus miserably performing defined-contribution plans that seem almost consciously designed to fail. Worse, the average American is assumed to somehow possess the expertise and, more importantly, the emotional discipline to execute a competent lifetime investment plan, a goal that even many Wall Street professionals fall well short of. I hope I have provided you with the tools to personally avoid becoming a casualty of this looming catastrophe. Needless to say, you have a great deal of skin in this game. I have enumerated several skill sets that every competent investor should master. Tie them together into lists that could be stuck to your refrigerator. Grab your breakfast, look regularly at these lists, and embrace this manifesto."

– William Bernstein

The five key principles of savvy investment activities

Prior to the 2009 downturn, lots of investors lost sight of the fact risk and return are always related. They fell into the trap of assuming the markets could only go in the one direction. Reality has been imposed with a passion. There's no escaping the fact the best potential returns are available when things are the scariest so if you're keenly aware of the risks in investing at present, that's good. It's a sign there's money to be made as long as you know what you're doing.

Picking individual stocks which will do well in the years ahead is a bad idea for individual investors. It can't be done consistently and despite what you'd like to think, you're no exception. But what may surprise is this also applies to actively managed funds. They don't know what will happen in the future any more than you and what's worse, they'll charge you a fee despite their ignorance. Avoid actively managed funds at all times.

With only a mere handful of exceptions, the financial services industry exists to steal your money. Their whole aim is to transfer your wealth into their pockets – they will end up vacationing on their yachts while you pore over the statements their firms issue you and wondering where your money went. Avoid full-service brokerage houses and most mutual funds at all costs.

When you study the history of financial markets, you'll note from time to time, weird things happen. A strategy that worked in the past will completely reverse and become toxic for your personal wealth. All you can do is to take a long-term view of what's going on so you can say: "I've seen this movie before and I know how it turns out in the end." Use that knowledge to avoid getting caught up in the madness which arises in the markets from time to time and instead stay focused.

The primary decision you make as an investor is how much investment capital you commit to stocks and how much you commit to bonds. This decision will determine what your risk-return characteristics will be. It's impossible to forecast which stock and bond asset classes will perform the best so you have to diversify. Always remember it's the overall performance of the entire portfolio that counts, not which asset classes are your best and worst performers. Always design your investment portfolio with your age and tolerance for risk in mind.

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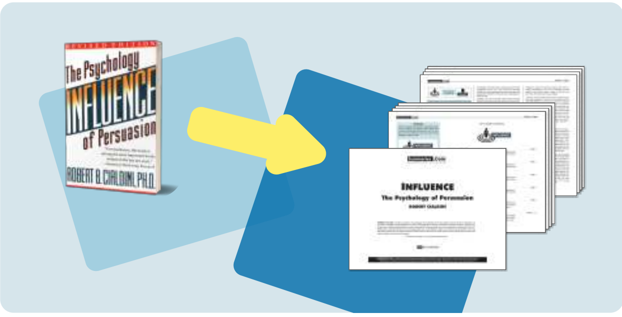

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