TALKS AT GOOGLE EP. 8 2018 10 02 JL COLLINS

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MAXINE: Welcome to another episode of the Talks at Google podcast, where great minds meet. I'm Maxine bringing you this latest episode with author and financial blogger, JL Collins. Talks at Google brings the world's most influential thinkers, creators, makers, doers all to one place. Every episode of this podcast is taken from a video that can be seen at YouTube.com/talksatGoogle. In this episode, JL Collins brings his refreshingly unique and approachable technique on investing to Google. The author of "The Simple Path to Wealth: Your Roadmap to Financial Independence and a Rich, Free Life", Collins offers easy-to-understand effective tips and resources to understand investing with confidence. In this interview with Googler Rachel Smith, he discusses money and investing, including how to think about money and investing to build wealth, how to avoid debt, how to simplify the world of retirement accounts, and much more.

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He also talks about what the stock market really is and how it really works, how to invest in a raging bull or bear market and ways to implement financial strategies. Here is JL Collins' "The Simple Path to Wealth."
JL COLLINS: Thank you.
RACHEL SMITH: Welcome. Welcome. So, my first question for you, the title of your book is "The Simple Path to Wealth."
JL COLLINS: It is.
RACHEL SMITH: And it's a road map to financial independence and a rich, free life. So, what does wealth mean to you? And how is it tied to a free life?
JL COLLINS: Well, I suppose we can look at that in two different directions. So, if we think about the psychological part of it, to me personally, what wealth represents is security and freedom. So, security to protect you from the--from what the world can throw at you and freedom to chart your own path in a way that you couldn't do without the resource.

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On the financial point of view, I suppose when I think about with the benchmarks are for are you wealthy or not, have you achieved financial independence or not? What has come to be called the 4% rule is a good guideline. That comes out of the thing called the Trinity study, and without belaboring that point, it simply suggests that if you have enough assets that 4% of that amount can cover your annual expenses, you can consider yourself financially independent. So, you can work at it from two different directions. You can say, "Well, I have $1 million. So, 4% of that is $40,000. Can I live on $40,000 a year or not?" And therein lies the answer to your question or, you can look at it from the other direction. You can say, "You know, I need $40,000 to live on. So, how much do I need to be financially independent?"

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You multiply $40,000 by, and as it happens, 25 and you get $1 million, and there's your answer. So, it really depends on what your needs are.
RACHEL SMITH: Got you. And why is important to keep the path simple? I think there's a lot of folks tuning in or folks in the audience who have read financial independence books and maybe their eyes roll back in their head because they just can't make sense of it all. So, why is it important to keep it simple?
JL COLLINS: Well, that's one good reason. But the reason that I prefer keeping it simple is simple is simply more powerful. Simple is what gets you the best results, and in this case, when I talk about simplicity, I'm talking about index funds and specifically broad-based stock and then bond index funds when you bring them into it. There are a lot of reasons that simplicity is an

advantage. It keeps your costs low, it keeps your life simpler, it makes things, when time comes, easier on your heirs. But the most important thing is that it is most powerful way to reach financial independence.

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People come to my blog are always--I get two kinds of readers on my blog. People who are really into this stuff and they always want to tinker. And that's not who I'm really writing for. I'm writing for people like my daughter who knows that it's important, but she has other things that she would rather do with her life than fixate on finances and investing. And so, when you have a simple path, you can just get a couple of things right, you'll have a very powerful performance, you will outperform the vast majority of professionals out there. And I'm fond of saying to those people who want to tinker, if I thought there was a way to successfully tinker and do better, then that's what I would've written the book about. And in fact, I wasted a couple of decades trying to find that.
RACHEL SMITH: So, you have a blog, JLCollinsNH.com. If folks are interested in your content, should they begin with your blog or your book?

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JL COLLINS: I would suggest that if you don't know anything about me or this concept, I would go first to the blog. And I would go to--there's a button at the top called Stock Series. And the blog is best known for my Stock Series of posts. And, when you click on that button, it will take you to an introduction. And in that introduction is a link to, what I think is the best review of my Stock Series that's been done. And not best because it's most favorable, but, in my view, the most accurate. So, you can click over to that and read that brief review. And after reading it, you will know very clearly whether this is going to resonate with you or not and whether it's worth your time. So, I would start there and then I would read a couple of the posts. And then, if you like what you read, you can consider going on to the book. There's nothing in the book that is not in the blog. So, you can get all of the information just by staying on the blog.

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The book is more concise, it's better organized because the posts on the blog came more organically as they occurred to me or were suggested. The book has the advantage of being better organized and more concise. I spent more time polishing the writing, so I hope that the writing is more polished, but I'll let--you'll make the judge of that.
RACHEL SMITH: Got it. And thinking back to the early days of your own investment history, how did you learn all of the stuff? How did you learn to invest?
JL COLLINS: I did it the hard way. I mean, trial and error. I spent, as I alluded to earlier, decades trying to do things that were not--what's seductive about this is that they were subpar but not bad performance. I tell people that long before I discovered or embraced index investing, I had reached financial independence.

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So, I reached financial independence by picking stocks and picking mutual fund managers, active managers who could pick stocks. Or thought they could pick stocks. So, it can be done, the problem with it is it is more expensive. It is more time consuming. It is not as effective as indexing. So, I would have been much better off if I discovered indexing earlier. The great irony is that Jack Bogle, who is the founder of Vanguard, the inventor of the first index fund available to the public, launched that fund in 1975. 1975 was the first year I started investing. I had never heard of Jack Bogle or Vanguard or index funds when I started. It was 10 years before I heard of them and then it took me a disturbingly long time to embrace it. So, I went down--people say, "How do you know all this stuff?" And it's, well, because I made just about--if you can think about a mistake you could make in investing, I probably made it.

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So, to the extent that I know anything, it's from my mistakes.
RACHEL SMITH: So, speaking of mistakes, what do you think was working in your favor versus working against you as you were trying to figure this out on your own?
JL COLLINS: Well, I think that the main thing that was working against me at the time and that is working against everybody listening to this, is there is a large industry, Wall Street, whose drumbeat is counter to our best interests. And it is based on making this as complex as possible, putting out a siren song that you too can be Warren Buffett. You too can pick stocks. You too can outperform the indexes. Only if you--only if you are willing to pay us for the privilege. And that's a very seductive message, because everybody wants to think that they can be above average and outperform.
RACHEL SMITH: You're in a room full of above average people.
JL COLLINS: Well, right. But maybe not in investing.

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Now, the irony is if you invest in index funds, and, of course, the slam that active managers put against index investing, is that you will only get average returns. That's a little bit misleading because yes, the index gives you the return of the market overall. But that return is far above average. Index investing, based on the research that had been done, outperforms depending on what numbers you look at, 80% to 85% of active managers over a 15-year period of time. If you research out 30 years, the number of active managers who can outperform the index is less than 1%. That's statistically 0 So, when you invest in the index and you are getting the average performance of the market, you're actually getting the best performance that you can expect by a long shot.

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RACHEL SMITH: Got you. And so, what was working in your favor?
JL COLLINS: I think what was working in my favor is I continued being curious. And I continued trying different things. And I continued researching. And indexing, which was first put in front of me in 1985 by a good friend of mine, there's something about it that is very counterintuitive. And I think, particularly for smart people like the people in this room and the people listening, because you look at it and you say, "Well, indexing says that I buy every stock in the index. And yet, if I can only just not buy the obvious dogs, I'll outperform. I mean, outperforming seems like it should be so simple. But the problem with that--or even if I just buy the top performers and not even buy that mediocre or the low performing ones, obviously I'm going to outperform. And yet, you look at the research that says that doesn't happen.

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And of course, the reason it doesn't happen is today's dogs are tomorrow's great turnaround success stories. And those that are flying high are the stories of how the crash and burn. So there is no way to know what is going to happen with specific stocks. And it is just way too easy to guess wrong.
RACHEL SMITH: So, one thing that struck me about your blog and your book is how specific the advice is. So, in other books or websites I have tried reading the past, the advice was always really vague like, "invest in mutual funds." And it would leave me thinking which one and how much?
So, why do you think other authors' advice is not very specific?
JL COLLINS: Well, I'm not sure I can answer that because I can't put myself in the heads of other people. Maybe I can answer it by telling you why my advice is what it is. That's because I didn't write this blog to have the international audience that I have today.

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It never occurred to me that that would happen. I had started, actually, writing a series of letters to my daughter about financial things I wanted her to know. And I shared it with business colleague of mine who said, "This is kind of interesting stuff and you might want to share it with your friends and family. And a blog would be a good way to do that." And this is in 2011. I like the idea of blog because it occurred to me that it was a good way to archive information. But I didn't have a plan to create a blog as a business or as a successful way to reach a broader audience. It was just to archive the information I wanted my daughter to know. And that was basically what mistakes I've made, what's worked, and what's kicked me in the ass, and what I think specifically she should do. So, I think that's why my advice is so specific. These are the things that I am doing now.

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These are the things I wish I had done in 1975, or at least in 1985 when I became aware of indexing. These are the things that I want her to do and that I've got her started doing. So that's maybe why my advice is more specific than others.
RACHEL SMITH: Okay. Yeah, I can't tell you how many times I've talked with a friend about how I'm on this new track where I'm investing and they say, "What are you doing?" And I just send them one sentence of exactly what I'm doing, and that's what I read in your book. And they're like, "That's it?" And I'm like, "That's it. That's all I'm doing." So, aside from telling them to open their computer, start it up, and what clicks to make to log into their account, it's such simple advice.
JL COLLINS: You know, I was, 1, 1 1/2, 2 half years ago, I was interviewed by Farnoosh Torabi on her podcast, and I don't know if anybody's listened to her podcast but at the end of her interview, she likes to ask the question that says, "If you were suddenly given $100 million what would you do?"

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And the typical kinds of answers she gets would be I would buy this, that, I give the money away, I do that. And, of course, she's interviewing me, we're talking about index fund investing and specifically VTSAX, which is Vanguard's total stock market index fund and the one I recommend the most and love the best. So when she asked that question, "Well, Jim. You've $100 million. What would you do?" "I'd put it in VTSAX. And she said, "Really? That's what you would do?"
RACHEL SMITH: Nice. So, one of my favorite posts on your blog is called "Why Your House is a Terrible Investment." And I know you got a lot of feedback from your readers about that.
JL COLLINS: Yeah, feedback's one way to say it.
RACHEL SMITH: So, why do you think this post is so controversial? Why do your readers get so excited about this post?

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JL COLLINS: You know, somebody--not me--but somebody said, "Home ownership is the American religion."

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And you could go to Daily Plaza in downtown Chicago and you could set up your little soapbox and you could climb up on it and you could pick any major religious leader and begin to vilify that individual-- Jesus Christ, Mohammed, Buddha, whoever. Just vilify them in the most horrific terms possible-- And people would just turn around and walk away. I mean, they would ignore you. You get up on that same box and suggest that homeownership isn't the perfect thing for everyone to do, and they start gathering rocks. So, I think it's polarizing and the people who love their homes and love the idea of owning a home, that gets that response. And there's another segment of people who don't like owning homes and see the value in renting, and they muster to the cause.

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And that's what makes that post, to my surprise, because I kind of did it tongue and cheek, and I, by the way, am not anti-homeownership. I've owned homes most of my life. I'm anti-believing the propaganda that it is always, or even commonly, a good financial decision. It can be a great lifestyle decision, and that's why I bought the houses I bought over the years. But I never once bought them thinking I was doing something financially astute. Because unless you happen to get lucky with a rising market, and that does happen, it's generally not the best thing you can do with your money if financial independence is your goal.
RACHEL SMITH: And so, for the person who's at the point where they are considering their first home or condo, what considerations would you advise them to make before they do that?
JL COLLINS: The first thing along the lines with what I just said is to understand that you're not making an investment. You're making lifestyle decision.

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In my manifesto on my blog, one of the things that I say something to the effect of all of our decisions don't have to be driven by financial considerations, but you should always understand the financial dynamic of what you are choosing to do. And I have a post about buy versus rent, run the numbers, which talks you through how to do that. So, I would suggest if you are renting now and you're thinking about going into a house or a condo, that you first run the numbers and find out exactly what it's going to mean financially. And it might be that it's gonna be less expensive than what you're renting. That's possible. That does happen. More commonly, you are going to find that it's going to be more expensive. But then you know. And just because it's more expensive doesn't mean that you don't have to buy the house. It just means that you understand what you're paying for the lifestyle decision that you're making.

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RACHEL SMITH: And that was one of the first conversations we had at the Chautauqua. I wanted to tell you a story about how I frequently get asked, "Rachel, are you gonna buy a place in Chicago?" And I say, "You know, I read JL Collins' book and I'm cool with renting for now." I told you a story about how my refrigerator broke before came to Ecuador and I just called my landlord and said, "Need a new fridge. See you later, I'm going to go to town." So, other than this post called "Why Your House is a Terrible Investment", is there any other post on your blog that's generated a lot of feedback or controversy from your readers?
JL COLLINS: Well, that's the one that has created the most controversy, because it's such a hot button topic. Less controversial, but very popular, probably the two that are most popular is "How I Failed My Daughter" and "A Simple Path to Wealth." And that was one of my earliest posts. And in one post, I kind of sum up the whole content of the blog and the book.

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So, that's popular. "Why You Need F-you Money" is probably at least as popular. From the reaction of the audience, I gather we have people who agree with that.
RACHEL SMITH: There's a famous video on YouTube called the importance of F-you money. So, those of you who haven't seen it, write it down, put your headphones on at your desk.
JL COLLINS: Yeah, it's not suitable for work. So, I just, quick aside on that, if I may. There's a movie called "The Gambler" which is not a particularly good movie, so I'm not recommending the movie. But there is a wonderful segment, it stars John Goodman, who's a wonderful actor. And there's a wonderful segment, little piece in that movie, and you can Google that and find this clip, where John Goodman is talking to Mark Wahlberg about the importance of having a F-you money.

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And when I saw that clip, I thought, "I want to do a version of that." I want to keep it as close to the original as I can but tweak it so that it reflects my values. He talks about buying a house, for instance, and we've talked about that. But my problem was I didn't know anybody who could make the film. But one of the wonderful things about Chautauqua, which is where you and I met, is that you meet really cool and interesting people who come to Chautauqua, including a couple years ago a pair of filmmakers who were less of than hour from where we were living at the time. They came up, and I give you all this background because if you choose to watch this, it's filled with salty language that I don't use every day, I'm acting, I am trying to channel John Goodman, and he uses the same language. And if you like it and you think I do a good job in it, the credit goes to my film makers, Joan--I'm terrible. I'm drawing a blank on his name.

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But if you go to my blog and you do the search function, you'll find it and you'll see their credit is given.
RACHEL SMITH: So, we are in the beginning of 2018, and this is a good time for folks who are trying to get their financial house in order, maybe come up with a 2018 plan, 2018 and beyond. And the amount of investment options is confusing and overwhelming. So, I know a lot of folks who are maxing out their 401(K) because that is very sound advice, we get the full match. They might also have an emergency savings fund, but beyond those two things, they don't know what to do with what's left over. And they're just keeping their money in savings or checking or maybe they're outsourcing the management of their money to someone else. So, for the folks who don't feel confident investing beyond just the 401(K) match and they're just keeping their money in maybe savings or checking, how should they begin to make sense of all these different options? How would you advise them to get started?

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JL COLLINS: Well, in a way, this circles back to the advantage of things being simple. So, if you think of--if you have a visual image, let's say, of a long banquet table that is just groaning under the weight of every kind of food and preparation and dish that you can possibly imagine. Think of that image as what the financial community has laid out for us and that they want us to partake in. The problem is, these are all very expensive things that are for the most part designed for the people who have created them and who sell them to enrich them, not necessarily what's best for us. That's the bad news. The good news is you can put your arm down on that table at one end, except for one tiny little corner, and sweep it all onto the floor, because none of that matters.

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Only a very small sliver of what out there really matters for us in building our wealth--that's index funds, and that's very specifically broad-based stock index funds, and broad-based bond index funds. I mentioned that the one that I like the best is VTSAX, which is Vanguard's total stock market index fund, more common than the original fund Jack Bogle created is the S&P 500 index fund. And that's perfectly acceptable, and the two are surprisingly close. So, sometimes people get hung up on deciding between them. You actually have access to one and not access the other. Go for which either one you have. And then there are total bond market funds. That's with those two tools, that's all you really need.

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It gets a little complex with 401(K) plans and 403 B plans for people who are not in the private sector because they don't always offer those particular Vanguard funds that I prefer. Most plans offer some kind of broad-based stock index, usually, an equivalent of an S&P 500. It might not come from Vanguard, which is my preferred company, but an S&P 500 index fund is pretty much the same no matter who's providing it. Fidelity or T. Rowe Price, those are all fine options.

RACHEL SMITH: Okay. And so, if someone wanted to get started this year and they wanted to take a look at some index funds, but they also know that their HSAs, 529 plans...how would you recommend they get started? Like maybe if 2018, which is going to be a simple year, what would be your advice if they're feeling overwhelmed by all the different places they could put their money?

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JL COLLINS: Well, I think if you're really starting from ground zero and you really do not have any base of knowledge on this--and that's not a bad thing, that can be an advantage, because at least it means you don't have bad knowledge. And there's a lot of bad information out there. So, if you're at that ground zero level, don't feel bad about that. There's an advantage. There's nothing you have to unlearn. At the risk of touting my own book and my own blog, I would go there and do a little bit of reading it a little bit of learning. So, one thing in way you phrase a question that people need to be clear about, and this is something that I come across a lot, is they'll say I want to invest in my 401(K) or want to invest in my IRA or I want to invest in VTSAX. Well, you are conflating investments with what I come to call buckets. So a 401(K) is not an investment. IRA is not an investment.

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A TSP plan is not an investment. Those are buckets. In those buckets you hold your investments. Investments are things like mutual funds and stocks and bonds. So those are the investments that you choose to put your bucket. So, if you have a 401(K), as you do at Google, and I've no idea what your 401(K) looks like, you will have a list of selections of investments you can put in that 401(K) bucket. If my approach resonates with you and you believe broad-based index funds are something you wanna go with, you can go down that list and maybe find the specific funds I'm talking about. But you will certainly probably find something that is a broad-cased index fund. The easiest way to do that, by the way, is to find the column that shows the expense ratio, and you should have that. Run your finger down that and when you find the very lowest expense ratios, you have found the index funds. And focus on those and take a look at them.

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RACHEL SMITH: And why do you think some people choose to manage their own investments whereas others outsource it to someone else?
JL COLLINS: Well, I think the people who outsource it to someone else have been convinced that this is just too complex for their pretty little head. And the vast majority of things on that banquet table that we talked about are too complex for anybody's pretty little head. In 2007, 2008, 2009 when the economy cratered, Wall Street was selling products they didn't understand. So, if this stuff looks complex to you, it's because this stuff is complex, and in some cases, intentionally complex. Bu we don't care about that because we don't need any of that. And once you understand that you don't need that complex stuff, then doing it yourself becomes much more attainable.

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Even if you don't have any interest in financial stuff. Like, frankly, my daughter. She has better things to do with her life than fool around with this financial stuff that intrigues her dad. And that's great. I mean, people have bridges to build and ways to make the world work. The beauty of this is that if you get a couple of things right financially, you can profoundly change your financial life without having to dwell on it. And you can get on with doing things that are more important to you and maybe more important to the world.
RACHEL SMITH: Okay. And what you think are 2 to 3 of the biggest mistakes people can make investing or managing their money?

JL COLLINS: Well, I think...two come to mind immediately. One is thinking that you can pick individual stocks and, by extension, that you can pick people who can pick individual stocks. That is people who run actively managed mutual funds.

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One of the comments that makes my skin crawl is when I hear people say something like, "Well, Warren Buffett became a billionaire picking individual stocks. I'll just do what Warren did." As if. As if. There is a reason that Warren Buffett is famous. Because Warren Buffett has managed to do something that is extraordinarily difficult to do. The ability to do it is extraordinarily rare. And the hubris to think oh, I'll just go and do what Warren has done, is, to me, stunning. It's just absolutely stunning. And the research indicates that while Warren has done it, as we talked about, you go out 30 years, and less than 1% of people trying to do it, who have survived that long, have accomplished it. So, I think you need--and I bring this one up first because this was my own stumbling block.

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I just kept believing that I could pick people who could pick stocks and I believed that I could pick stocks. And because every now and again I would get it right, and maybe I got it right more often than I got it wrong, that feeds into that belief, and that is the thing that made me reluctant to pick up indexing. But the truth is that the few times I got it wrong, dragged down my performance. To where, and this is what happens to the vast majority of people trying to do it, to where I would've been far better off with the index. Far better off. So, trying to pick individual stocks and managers is number one, maybe. Not necessarily in order. The second thing is trying to time the market. And you can't turn on the financial news or open a financial periodical without finding somebody who's telling you definitively where the stock market is going next. Nobody knows. If you could accurately do that with any consistency, you would be far richer than Warren Buffett and far more lionized.

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It would be magic dust. Nobody can tell you where the market is going. You just can't predict the market. And trying to is a fool's game. So, Fidelity Investments did a little piece of research I think about a year, a year and a half ago. And they were curious as to what group of investors in their funds did best. Because the research indicates that the people who invest in a mutual fund outperform--or underperform, rather--the performance of that fund. And you say, "How is that possible? If they are investing in that fund, their performance should match the fund." The reason they underperform is they try to dance in and out. They tried to time the market. So, when Fidelity did this research, they determined that one group of investors did significantly better than any other group in all their funds. At that was dead people.

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The dead people outperform. Now, can you guess why? Because they didn't tinker with their investment. The second-best performing group were people who forgot they owned the fund. So, you can't time the market. Especially when the market has been on as long a Bull Run as it has, the media is filled with people telling you that they know what it's going to do next. At some point, the market will die. Because the market is volatile. That's what markets do. So, if you invest in the market, you have to expect that. You have to expect the volatility. You have to be a willing to ride with that. But I don't know when it's going to do that. It could be happening as we're sitting in this room today. I haven't looked at the market. It might be ten years from now. I have no idea. And nobody else does. The difference is, I'm willing to say I don't know.

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RACHEL SMITH: So, for someone who may be interested in investing, even they go home today, they have some cash they want to start investing, and they say, "Well, the market's the highest it's

ever been. I'm going to wait for the market to dip." What advice would you give to those folks who are waiting for the next dip?
JL COLLINS: Well... if we went back to March of 2009, which was when the market bottomed in its collapse, almost every month since, then you could've said the same thing. I wrote a post in, I want to say 2004, responding to a reader who was asking that exact same question. The market, the S&P 500, was at 1600 and change, and this reader was saying how can I possibly reinvest? How can I possibly invest? Nothing would go up for the last five years.

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Here it is at 1600 and it bottomed out at I want to say 600 or something. Where are we today? Now, I didn't know that at the time, because I didn't know where the market was going to go. But you just don't know. You can't predict the market. By the way, it's become fashionable to suggest that that PE Ratios, or Shiller PE Ratios, give some insight into this. In that post, it's called investing in a raging bull. It's in the Stock Series. I just put a link to a post I came across. Very well done where the guy analyzes where the various PE Ratios were at the beginning of drops. And there's no predictive, uh, no predictive correlation there to be had. So, you just can't know. I also have a post called Why I Don't Like Dollar Cost Averaging.

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And in summary, dollar cost averaging is the idea of putting in a little bit of the money at a time over a period of time. The problem with that is that unless the market conveniently goes down while you're doing it, you will have been giving up gains rather than avoiding losses. And the thing that really bothers me about it is at the end of your investment period, when you finally deployed all of your money, who's to say the next day is the day the market takes its next plunge? So, you have $120,000 you want to deploy, and you say I'm going to do it over the next 12 months and I'm going to put $10,000 a month in and I'm going to avoid that risk. You're not avoiding the risk. You're just delaying the risk until you put that final $10,000 in. Now, if you get lucky and the market plunges, you can pat yourself on the back, but understand that's only luck, because nobody knows where the market is going.

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There is a saying that the best time to have invested was yesterday and the second-best time is today.
RACHEL SMITH: That's great advice.
JL COLLINS: Time in the market is more powerful than trying to time the market.
RACHEL SMITH: Time in the market is more powerful than trying to time the market.
JL COLLINS: Well said.
RACHEL SMITH: I like that. So, we have one more question for Jim. But for folks who have live questions, feel free to line up at the mic. We also have a dory at go/Jim/dory. So my last question before we turn it over to live questions is there may be folks in this room of a New Year's resolution to get their financial house in order. And they may be one of the folks who have a lot of cash in checking or savings or so overwhelmed by the stuff where they don't even know how to begin. So, what would you say are just the key takeaways they should focus on when they leave the room?

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JL COLLINS: Well, again, I would encourage anybody in that, but if you're sitting on that much cash--and I'm assuming that amount of cash represents a large part of your net worth, as money is relative-- but if you're sitting on $100,000, as an example, and that is a large part of your net worth, that indicates that you are not comfortable investing and that's fine. So, the first thing you should do is educate yourself. And you can start with my blog or my book and see if that resonates and go from there. If you find it doesn't resonate, then there are a lot of other sources out there. But

educate yourself first. But if you are prepared to--and some of the posts that I referenced during the Sock Series you can read about investing in a raging bull. You can read about dollar cost averaging. But once you decide to invest in stocks, you have to accept the fact that the market is volatile.

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The market--at some point, the market will go down. Now, whether it goes down 10% and continues going up--who knows? Nobody knows. But the market--you can count on it being volatile, and at some point it will go down. And you have to come to terms with that. And you have to be absolutely sure that when that happens, not if, but when, you don't panic. Because the only way you lose is if you panic and sell at the bottom. Now, trust me when I tell you--because I've lived through a few of them--when the market is taking one of its dives, it's ugly. It's painful, it's scary. It's easy to sit here now and say, "Well, I'll stay the course." But it's not so easy to do it when it's happening.

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So, the first thing you need to know is, or first thing you need to resolve, it seems to me, in your own mind, in your own heart, in your own gut, is that when that happens, that selling is not an option. It's just simply not an option.

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Now, in my world, I divide the times in our life between wealth accumulation and wealth preservation stages. In a more traditional point in time, that might have been, when you're young and you're working, that's your wealth building stage. And then you get to 60 or 65 and you retire--wealth preservation. These days, people step in and out of careers on routine basis. So, you will go from preservation to wealth building and back several times. I know I did in my career. When you're doing that, there are two ways you can mitigate the volatility of the market and actually use it to your advantage. When you are in the wealth building stage, you have earned income. And if you are aiming to be financially independent, a large portion of that income is being diverted into investments. So, that means on a regular basis you are putting substantial amounts of your income into the market.

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That, by extension, means when the market drops, you're getting to buy things on sale. Now, you're not going to try and time this, because we know we can't do that. What it does means is that when the market drops, you should celebrate. Because oh, I'm getting to buy. When I put that extra $1,000 or $10,000 or whatever it is in each month, I'm getting more shares in my VTSAX then I would have gotten otherwise. The volatility works to your advantage in that fashion. So, you sleep easily at night because you don't care what Mr. Market is going to do. Now, when you move to the wealth preservation stage, you no longer have that income stream to smooth the ride. And that, in my world, is when you add bonds. And bonds become like ballast in your saving ship. Where your flow of income was before, now you're going to replace that with the ballast of bonds. And that means that when the market plunges, the stocks plunge, and you reallocate stay at whatever allocation you have chosen, you will be selling bonds which have gone up a percentage of your portfolio.

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Let's say, as I do at the moment, you have 30% bonds, 70% stocks. When stocks plummet, the percentage of bonds is going to go up. You sell some of those bonds, and you're buying those stocks at lower prices, just like your cash flow was allowing you to do it before. When stocks go back up again and suddenly that percentage of stocks starts to outweigh where you want it to be, 'cause it's above 70, you start to selling some of those off to replenish your bonds. With those two strategies, you no longer have to care whether market is going up or down because you know that

over time the market is going to go up. And you have eliminated the concerns with volatility. So, I would embrace those two concepts. Understand that you don't ever sell in a panic just because it went down.

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That is simply not an option that you will ever consider. And then, depending on what stage you're in, either use bonds or use cash flow to smooth the ride.
RACHEL SMITH: Alright, we're ready to go to some live questions.
PERSON:: Thank you for coming. I just had two questions about the future. So, number one.
JL COLLINS: You are addressing the wrong guest.
PERSON:: I'll try anyway. So earlier in the talk you mentioned a very simple sentence-- what you do with your money, put it in VTSAX or a similar fund. So, that one sentence, it seems like you can do that in a matter of a few clicks...
JL COLLINS: Absolutely.
PERSON:: As an individual. So, my question is about the financial adviser system, the kind of--the larger system where you're calling someone on the phone and having them essentially do the exact same thing. My question is how do you see that changing as the world becomes more financially educated?

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And then as a corollary to that, the broader system, if everyone kind of buys into this indexing idea, are there any systemic risks to the entire world investing in an index?
JL COLLINS: Okay, so, with financial advisers... I think in fairness to financial advisers, they can be useful in a wide range of subjects other than making your investment choices for you. But I have one of the chapters in my book and one of the posts in the Stock Series is why I don't like investment advisers. Because if you embrace the simplicity that I suggest, then, from at least an investment point of view, as you well point out, why would you need an adviser to do what you can do in handful of clicks?

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And when I gave my talk at Chautauqua when I was preparing that talk for last year, I took a little different approach than I'd taken before, and I was thinking about the content of my book and the content of my blog and then trying to boil it down into one line or one phrase. And really, what I came up with is my advice is buy VTSAX. Buy up as much as you can. Buy it whenever you can, and hold it forever. And it's really that simple. And as you say, it's a matter of a handful of clicks. The second question, and this is one that's in the financial community a fair amount is, well, what if everybody embraces indexing? What's that going to do to markets? And the problem that's suggested is that indexing simply buys every stock, whereas stock pickers, whether there are individuals or fund managers, they're the ones who are trying to evaluate companies, thereby creating a trading mechanism that looks at some sort of objective, objective parameters and comes up with values. And is there a danger to that going away as everybody embraces indexing? I' not concerned about it. I don't know if there's a danger or not because it's hypothetical. I'm not concerned about it though because indexing, I think at the moment, accounts for 20, 25% of the market. It is growing. More people are embracing the idea. But I think if it continues to grow, what I would, what I think will happen is as that sliver of active management becomes narrower and more and more people are indexing, the opportunity to actually outperform the index will start to increase. And as that happens, you will have some of those active managers posting success stories and that will begin to tilt it the other direction.

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And I think the other reason I'm not concerned about indexing taking over the world is because, as I mentioned earlier in answering one of your questions, it is counterintuitive that it is so powerful. And we--it's part of human nature, to want to think you can outperform. It's part of human nature to

want to best the benchmark. I still have the disease. Every now and again I'm still trying to pick stocks. So, I think that aspect of human nature is also going to keep indexing from ever taking over the world. Does that help at all?
PERSON:: Yes, thank you.
JL COLLINS: My pleasure. Than you.
PERSON:: Hey, Jim. Thanks for coming today. My dad and I go back and forth on this all the time, but do you see any advantage to trying to diversify away from S&P 500 and think about either global markets or bonds or commodities?

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JL COLLINS: Well, bonds, as I mentioned, I think you add bonds, depending on at what point in your life you are, as ballast for your investment ship. Other than that, I don't see a role for bonds. What's interesting to for me about that question is the S&P 500, as the name suggests, owns basically the 500 largest American companies. VTSAX, which is a total stock market index fund, owns, and it varies, but about 600 companies. When I first started investing, and it was before such things existed or they were just coming on stream, the idea of being diversified was--because the vast majority of people were picking individual stocks. They had to, because that was available. There were some mutual funds out there, but the advice given to individual investors then was, you know, you wanna pick 7, 8, 9, maybe 10 industries.

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And inside those industries, you want to 2 or 3 companies. And then you have a diversified portfolio, because you really can't physically and mentally follow more than 20, 25, maybe at the outside 30 companies. And that was considered to be a well-diversified portfolio. So, when somebody says to me, "Do I need to diversify beyond 500 companies?" I think you're there. I think you're there. Now, the international aspect of it--I'm little at odds with the rest of the world or most of the rest of the world-- the advice that most people give is in addition to buying S&P 500 or VTSAX, which are U.S. companies, you need to buy funds that put you into the rest of the world internationally from other countries.

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Vanguard itself gives that advice. I don't buy it, at least not yet. The U.S. is still very dominant in the world economy. It will continue to be dominant for the foreseeable future. But more importantly, those companies in the index, in the S&P 500, especially in the top 100 of those companies, Google is an example, are international companies by definition. So, if you're investing, S&P 500, and, of course, the S&P 500 is 80% of VTSAX, you by definition are invested in the world.
PERSON:: Well, you just proved my dad right, so...thanks.
RACHEL SMITH: Before we take our next live question, I want to go to the top voted question on the dory. So, the question is from Stephanie here in Chicago. She said, "A lot of Googlers receive a significant portion of compensation in Google stock. Oftentimes, there are strong camps who never sell a share or those who sell it all and diversify immediately.

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What are your thoughts on holding the Google shares since we're all extremely invested in the success of Google?"
JL COLLINS: Well, that's a politically loaded question. Somehow, I think I should say hold Google. But that's actually not my opinion. And that has nothing to do with, by the way, Google stock what I see as the future of Google. The problem I have is in looking at the question, when she says we are all extremely invested in the success of Google, that's a great thing. But that's also an emotional thing. And I think you need to separate your emotions from your investing. So, you all want to see Google go forward and succeed and prosper. It is your career. It writes your paychecks.

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And therein lies the problem, because when you are also invested in Google, you have more and more eggs in that one basket. I don't know what the future of Google is, and nobody really does. Everybody in this room, presumably, and in organization is striving to make that future wonderful and profitable, going on indefinitely, and have done a wonderful job so far. But the world is filled with people that are trying to eat your lunch. I think back to General Motors. So, when I was a kid, in the 1960s, General Motors, who kind of had a rough go of it in most of your lifetimes, in the 1960s, the federal government was on the verge of breaking up General Motors. Because nobody else could compete with them. General Motors was so dominant that the government was concerned that no other car company would be able to compete and they would have to step in.

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And they were specifically talking about splitting off the Chevrolet division, which was just huge and dominant. Well, of course, history tells us two things. It tells us, one, the government chose not to do that. And two, that they didn't need to worry. Because the world was filled with places with other companies waiting to eat General Motors' lunch the moment they slipped up. Over simply the moment the competitor figured out a better way to do it. So, you have to be very careful in putting all of your eggs into the same basket where you work. Going back to the question the gentleman asked earlier but they S&P 500, I would rather own the S&P 500, or at least have the bulk of my net worth in the S&P 500, because now I don't have to guess who's going to win. Because the losers fall off and the winners go on and prosper.

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One of the beautiful things about the index is what I call self-- It is self-cleansing. And by that what I mean, is that if you look at any specific company in that index, you can only lose 100% of that company. But any other company in that index, and Google is a wonderful example of this over the last few decades, can grow exponentially. There's almost no limit to how far it can grow. So, that's kind of a winning combination. The losers fall off, and they don't actually go to 100% before they get D-listed, but the losers drift away and you are continually getting new blood added to it as new companies come up. And you get to benefit from those who succeed. And all of those companies are filled with people who are working hard to make sure that their company succeeds. I don't have to figure out who the winner's gonna be, because I own them all.

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RACHEL SMITH: Okay, we have time for one more question.
PERSON:: So, I was going to ask two, but I think they're quick. The retirement day funds, thoughts on those target retirement day funds? So, automatically adjusting allocations when you're close to retirement. Thoughts on that, or do you think you should just do allocation yourself through the various bonds and Vanguard funds on your own? And then second one was just really about in what scenarios would you find it helpful to use a financial advisor? I find doing it on your own is great, but at some point, you want some kind of reassurance you're doing it well, not for investment picking, but you have to go to someone to get insurance, et cetera.
JL COLLINS: Okay, so, a target retirement fund, just to kind of quickly explain what that is. There are mutual funds out there-- Vanguard has them--which are called target date retirement funds or target retirement funds. And the idea is in that it's--it's what's called a fund to funds.

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Which means it is a mutual funds that holds a bunch of other funds inside it. Usually, 5 or 6 different funds. And with a target retirement fund, you pick a retirement date. And you buy the fund. And as the gentleman just indicated, you can hold it forever. And automatically, the closer you get to that retirement date, the more conservative the fund allocation will become. That is to say,

typically the more bonds they will add. So, the idea is you never have to adjust your allocation as you get to it. Now, you can adjust--some people say well, gee, I might want to be more aggressive or less aggressive than the retirement fund. You can adjust that if you want to be more aggressive. Just pick one with the retirement date that's actually further out than your own anticipated retirement. If you want to be more conservative, you can just bring that retirement date in closer than you're actually planning to retire.

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And the idea is that you never have to do anything again. It is not a bad approach. If you really want to invest in a way that is completely hands-off where you really never have to think about it, this is not a bad way to go. And in fact, I have a post on this in the Stock Series, and I think it's a chapter in the book. I'm not sure if I put it in the book or not. But there's a post in the Stock Series where I talk about these things. It's not a bad way to go. What I suggest to people is that if you can read through my Stock Series, and you are comfortable with what you read, or if you read my blog--or my book rather--and you're comfortable with what you read, it is less expensive to simply do the allocation yourself. And it's not very hard. It doesn't take much time. And that's the way I would encourage you to go. On the other hand, if you read through the Stock Series, or you start reading through it and you say, "You know what, I just really don't want--this is just not my thing."

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And there are topics, by the way, in my life, that I would have that reaction to. Then just skip down to the post about target retirement funds and you can be done, and it won't be a bad thing to do. And the second thing, real quickly in terms of financial advisors, again, I don't think you need them. If you follow an approach like mine, which is simple investing, you don't need them for that. But there are other aspects where they can be useful. The problem with financial advisers is while there are good ones, there are a lot who are not. And they're not for a couple reasons. One is, simply, they're not that competent. The other, little more insidious, is that their interests are not necessarily aligned with what's best for you. So, if you read my post on why I don't like investment advisers, one of the conclusions I come to is by the time you know enough to choose an investment advisor wisely, had you invested that time learning it yourself, you would know enough to do it on your own.

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PERSON: Thank you.
JL COLLINS: Thank you.
RACHEL SMITH: We are out of time. Thanks for coming to Google Chicago. It's been a pleasure having you.
JL COLLINS: It's been a pleasure being here. Thank you.
RACHEL SMITH: Thanks so much.
JL COLLINS: Thank you. My pleasure.

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