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Four pillars to help you make better financial decisions



MARK BHASIN

In *The Four Pillars of Investing, Second Edition: Lessons for Building a Winning Portfolio*, author William J Bernstein, a retired neurologist and co-founder of investment management firm Efficient Frontier Advisors, provides a comprehensive guide that offers important insights and practical strategies for creating and maintaining a successful investment portfolio.

The book, first published in 2002, gives investors a strong foundation in financial principles. Bernstein sets out four key pillars that serve as the bedrock: theory, history, psychology, and business. These pillars together function like the four legs of a chair and are the guiding principles for making good investment decisions.

The first pillar, theory, includes comprehending the underlying concepts and principles that lead to successful investing. Bernstein discusses the need to create a well-diversified portfolio that strikes a balance between risk and return, tailored to individual financial goals, time horizon, and risk tolerance. He explores the intricate rela-



Keeping a disciplined approach to investing and avoiding emotional reactions to short-term market fluctuations are key messages in the book. ILLUSTRATION: PIXABAY

tionship between risk and reward, encouraging investors to thoroughly assess their risk appetite before making investment decisions.

The second pillar, history, stresses the importance of analysing past market trends and historical data because history provides invaluable insights into the behaviour of financial markets. History is my favourite of the four pillars.

In my opinion, investors should spend more time analysing financial history to understand what is possible in deriving their views on financial markets, instead of listening to “experts”.

Based on historical events, including market booms/busts and recessions, the author illustrates the cyclical nature of markets and highlights the importance of a long-term investing approach. He

discusses the implications of market efficiency for retail investors while advocating diversified portfolios, as opposed to relying on market timing or individual stock selection strategies.

The third pillar, psychology, highlights the impact of human behaviour on investment decisions since the presence of emotional biases can lead to irrational decision-making. Bernstein discusses various biases and provides strategies for investors to overcome them.

Keeping a disciplined approach to investing and avoiding emotional reactions to short-term market fluctuations are key messages that Bernstein provides throughout the book.

He encourages investors to focus on long-term goals and to develop an investment plan based on solid principles while avoiding emotional decisions driven by noise or short-term trends.

The fourth pillar, business, explores individual companies and their financial performance. Investors should conduct thorough research and gain a deep understanding of the businesses that they choose to invest in.

The author stresses the importance of investing in undervalued assets, as well as the impact of fees and expenses on investment returns. He emphasises the need to minimise costs because they can significantly erode investment performance over time. Bernstein ad-

vises investors to seek options that offer broad market exposure at a lower cost than that of using actively managed funds.

Although the investment content in magazines, newspapers, social media, and market strategist interviews should be largely ignored, Bernstein recommends reading *The Economist's* finance section and listening to the authors of academic papers referenced in the book on YouTube or podcasts,

The book sets out four building blocks of investing: theory, history, psychology and business.

such as Eugene Fama, Zvi Bodie, and Robert Shiller. He supports his pillars with practical examples, case studies, and historical data, making the content accessible and understandable. *The Four Pillars of Investing* has received numerous accolades for its comprehensive approach and focus on evidence-based strategies. However, critics have argued that it may be too technical for beginner investors and overlook the possible benefits of active investing.

Private wealth investment professionals can use this book as a way to convey some basic invest-

ment concepts to clients who are not already familiar with them. The author argues that most brokers and advisers occupy the lowest rung in the hierarchy of investment knowledge. But these same investment professionals can play a critical role in helping individual investors manage their own psychology, to enable them to “stay the course” and not overreact to short-term fluctuations.

This can be an important role played by brokers and advisers because the failure of just one leg of the chair can lead to the demise of the entire investment strategy.

In summary, *The Four Pillars of Investing* is an important tool for investors looking to design a more successful investment portfolio. Investors can make better financial decisions by comprehending the four pillars of theory, history, psychology, and business.

This book highlights the importance of disciplined investing and a long-term diversified approach to managing risk and achieving financial goals. Because of its insights and practical guidance, this book remains a critical resource for investors trying to navigate the complex world of investing.

Mark Bhasin, CFA, is senior vice-president, Basis Investment Group, and adjunct associate professor of finance at New York University's Stern School of Business