

Wednesday, May 29, 2024

THE BUSINESS TIMES

INSIGHTS FROM CFA SOCIETY SINGAPORE

Book review: Keys to successful investing



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BEFORE you reach the introduction to *Enrich Your Future: The Keys to Successful Investing*, you will be thrown a curveball in the foreword by Cliff Asness, managing and founding partner at AQR Capital. He lures us into a trap by suggesting a number of best investment practices. For instance, he recommends beating the stock market through timing and stock picking, using fire and hire decisions on money managers that add value in the long term, and retaining oversized holdings as a prudent and low-risk strategy.

Surprise! These approaches are the opposite of what Larry Swedroe recommends in *Enrich Your Future*. Indeed, they are the opposite of what Swedroe has practised for decades as head of economic and financial research at Buckingham Strategic Wealth and what he has said in his numerous books and articles. He explains that the tactics illustrated in the foreword can be

highly damaging to long-term financial health.

This engaging book is simultaneously memorable and humorous. The numerous analogies between investing and success in playing or betting on basketball, American football, and golf will have you smiling as you absorb the lessons.

Swedroe presents unforgettable investment precepts in four parts: 1) How Markets Work: How Security Prices Are Determined and Why It's So Difficult to Outperform; 2) Strategic Portfolio Decisions; 3) Behavioral Finance: We Have Met the Enemy and He Is Us; and 4) Playing the Winner's Game in Life and Investing.

Consistent themes

The themes repeated throughout each part are, first, the necessity of having an investment plan that focuses on objectives and risk tolerance; and second, implementing that plan using passive investments. It is as simple as that. With such a plan in place, investors need only to rebalance as necessary or to shift allocations if their objective or risk tolerance changes.

Swedroe provides an abundance of entertainment with sports analogies related to the probabilities of success in betting, and to investing in an efficient market. In

the sports world, there exists a collective knowledge, analogous to the efficient market, which reflects everything known about each team and all the players in it.

It is extremely difficult to achieve an "excess return" in sports betting in the absence of a surprise, such as the 64th-ranked NCAA basketball team moving into the Elite Eight or better. The price-to-earnings and book-to-market ratios act like point spreads. Swedroe's argument is that beating the market is almost impossible to achieve on an ongoing basis because of the market's efficiency, and that everything known about an individual stock is incorporated into its price – until a surprise occurs, such as an earnings blowup or a blowout forecast.

At the end of each chapter, Swedroe supplies The Moral of the Tale, succinctly summarising the preceding topics and items he implores investors to address. With these "morals" in hand, readers will come away with no doubt about his recommendations for smart investing and letting the market work for the investor. For example, the competition is just too tough for any one investor or fund manager to outperform consistently. Just take par. Do not be greedy and hold out for birdies and eagles.

Another lesson, from Chapter

16, All Crystal Balls Are Cloudy, is to never make the mistake of treating even the highly likely as if it were certain. My favourite chapter is Chapter 34, Bear Markets. In it, Swedroe recommends that you create and sign an investment plan, complete with an asset allocation plan, and stick with it. Be certain that it considers bear markets so that you do not freak out when they occur. Change the plan only if your assumptions about risk change. This simple though highly charged "moral" summarises the book perfectly and applies to both individual and institutional investors.

Avoid dividends?

Value-oriented, conservatively motivated, or risk-averse investors may cringe as they read Chapter 30, The Economically Irrational Investor Preference for Dividend-Paying Stocks. I suggest readers keep in mind that risk assessment is one of the key elements of asset allocation.

Many investors may prefer a preservation objective, with an overweight in fixed-income assets and dividend-producing stocks from companies that are fairly priced and have a clear dividend policy. Swedroe makes a strong case for avoiding dividends, however.

He cites the 1961 paper by Merton Miller and Franco Modigliani, *Dividend Policy, Growth, and the Valuation of Shares*, which established that dividend policy should be irrelevant to stock returns. He also acknowledges Warren Buffett's comments on the same point when Berkshire Hathaway announced a share buyback in September 2011. Swedroe further points out that 60 per cent of US stocks and 40 per cent of international stocks do not pay dividends. Therefore, investors who must include dividends in their investment portfolios are far less diversified than they could be, he maintains.

Swedroe states that investors should sell stock rather than receive dividends. It is a matter of how the "payout" problem is framed. For some institutional and individual investors, the selling strategy may be suitable, but for others it may be inadvisable. I am reminded of years when portfolio distributions have become severely depleted due to market declines, as in 2022, when the S&P 500 Index fell by 19.4 per cent, and 2008, when it collapsed by 38.5 per cent.

Swedroe's "enriched future" goes beyond achieving successful returns on investment from a well-allocated passive portfolio. He devotes Chapter 40, The Big Rocks, to

the effects that applying modern portfolio theory, the efficient market hypothesis, and passive investing have on personal and professional lives. Don't sweat the small stuff and hear all the market's noise. Focus on what matters in life: family, faith, and causes.

Detailed lists but no index

The appendix presents a selection of passive funds by asset class, and this list goes well beyond the expected iShares and SPDRs. Well-detailed chapter notes are also provided. Yet, this expansive book lacks an index. I found myself wanting specific direction to the work of prominent scholars and practitioners such as Peter Bernstein, Aswath Damodaran and Charles Ellis, as well as topics such as Monte Carlo simulations.

Enrich Your Future dispenses its lessons in a digestible manner. Intended for investment advisors, family offices, and institutional investors, the book is also one that investment professionals should demand their clients read, understand, and put into practice. It serves as a wake-up call to do what is demonstrably best and to avoid complacency and fads in creating investment portfolios.

The writer is a former senior portfolio manager with PNC Wealth