
You Know More about Investing than You Think You Do

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No matter how familiar we are with investing, we've all navigated uncertainty, weighed risks and rewards, and made carefully considered tradeoff decisions. Just by being human, we've been compelled to tackle the central challenges of life—which also happen to be the central challenges of investing.

At Dimensional, we believe that having a good investment experience is about more than returns. What matters just as much is how someone feels along their financial journey. And that's really what the investment business should be about: helping people live better, more fulfilling lives.

Investing better means living better. Not just because it can lead to having more money, but because many of the habits that serve us well as investors serve us well in life, too. By integrating our life and investment philosophies, we can see money as a tool that empowers our plans rather than as a goal in and of itself. Here are six principles that can help you in life and in investing.

UNCERTAINTY CREATES OPPORTUNITY

Uncertainty can be uncomfortable, but we often forget that, without it, there would be no opportunity. When we decide to move to a new city or change career paths, we don't know exactly what will happen. There's always a risk that things won't work out the way we had hoped, yet these experiences help us grow and can change our lives in amazing ways.

When you invest, returns are compensation for taking on uncertainty. Without risk, there would be no reward. But there's also risk in choosing not to invest, because if your money doesn't grow over time, it won't go as far in the future. Cash hidden under a mattress can't keep up with inflation.

As investors, it's easy to get caught up in worrying when markets drop. But when we realize that investing means getting paid for accepting risk, we can start to see uncertainty as a source of opportunity, even during times of market volatility.

Embracing uncertainty rather than trying to avoid it can help us live better. This approach to life and investing guides us through uncertain times and helps refocus our attention on the opportunities ahead.

*“The best antidote to uncertainty is educated optimism.”—
David Booth*

PLAN, DON'T PREDICT

We've all tried to predict what will happen in life, only to be disappointed when it didn't turn out the way we anticipated. But human beings develop strategies to deal with the fact that none of us has a crystal ball. We apply to a list of potential colleges, not just our first choice. We interview a series of job candidates, even when there's a clear front-runner. We wear a life jacket on a boat, even though we know how to swim.

Investing is just like life: For maximum peace of mind, we make plans that account for a broad range of possible outcomes. This way, you can feel empowered by the unknown instead of paralyzed by it.

Research has shown that stock pickers consistently underperform their benchmarks.¹ But you don't need to be able to predict winners to have a good investment experience. Over the past century, markets have returned, on average, about 10% a year.²

So don't try to outguess markets—go with them, even when that means tolerating and being prepared to live through some short-term disappointments. Odds are you'll have a better investment experience in the long run.

*“Plan for what can happen, rather than trying to predict what
will happen.”—David Booth*

FLEXIBILITY ADDS VALUE

When you're in the market for a new car, you probably know exactly what you want, down to the color of the interior trim. But it can be hard to locate the precise model and features you're after, and once you do find the car you want, you may have to pay a premium for it.

If you're willing to be flexible with your choices—maybe going with black instead of gray or sacrificing a sunroof—you can get that new car faster, and at a better price. Life rewards flexibility over rigidity.

Flexibility adds value in investing, too. Staying flexible around what stocks to hold and when to trade can give you an advantage. While index funds are a solid, low-cost solution for many investors, they are forced to trade on certain days to track their index. The funds may not get the best prices on the securities they hold, resulting in investors leaving returns on the table.

In life, as in investing, sound decisions are often grounded in research and implemented with flexibility.

“Flexibility adds value because it leaves space for judgment.”—David Booth

HARNESS THE POWER OF COMPOUNDING

Even the small, seemingly inconsequential decisions we make every day can have a big impact over time. Whether we’re trying to run a faster mile or master a foreign language, the best way to stay motivated is to keep reminding ourselves of the rewards that come from patience and commitment. Just a little bit of time every day can add up to a lot of progress.

The same is true of investing. A 10% return on your investment each year—similar to the stock market’s historical annualized average—would double your money every seven years. Having a lot of time can help an investor make up for not having a lot of money.

In both life and investing, compounding is a powerful force. You might say that the life equivalent of compound interest is wisdom. Learning from the past can help us make better decisions in the future, and those lessons build on one another over time.

“Your life is the result of the cumulative effects of the decisions you make every day.”—David Booth

CONTROL WHAT YOU CAN CONTROL

So much in life—good and bad—is out of our control. Sudden storms can pummel us in the middle of summertime. A sports team that seemed destined for a disappointing season can come out of nowhere to win a championship. While we can’t control everything that happens, we can take charge of how we prepare for and react to life’s curveballs.

As human beings and investors, all we can do is try to make the best decisions possible with the information we have available, plan for a range of outcomes, and relax knowing we’ve taken a sensible approach.

In investing, you can’t control the ups and downs of the market. What you can control is how much you save, the risk you take on, and the guidance you seek in putting together an investment plan that’s right for you.

The future is uncertain, but the quality of your decisions doesn’t have to be. When you make informed choices, you have the satisfaction of knowing you did everything within your control, even if things didn’t work out exactly the way you’d hoped.

“While you can’t control the world around you, you can control how much risk you take.”—David Booth

TUNE OUT THE NOISE

When you focus on an important goal, other people’s opinions can be distracting, even derailing. Who cares if a friend doesn’t agree with your new exercise plan, as long as it’s working for you? Once you’ve done the research and come up with a road map for success, rally your supporters and turn down the volume on your detractors.

This mindset is also key to being a successful long-term investor. Many of us are exposed to a barrage of investment commentary—for example, TV pundits handing out stock tips and friends touting the “next big investment.” As tempting as the ideas may sound, they’re potentially harmful distractions. Things that seem too good to be true usually are—and yielding to your “fear of missing out” can exact a deep price in the form of lower returns over a lifetime.

We all know that markets rise and fall—so we can be disappointed by downturns, but we shouldn’t be surprised by them. Reacting emotionally to recent market volatility may be more detrimental to your portfolio performance than the drawdown itself.

How do you tune out the noise? Working with a financial advisor, like working with a trainer or coach, can help you see past the headlines to cultivate discipline and the sense of security that comes from knowing you have a well-thought-out plan.

“When it comes to investing, a lot of things are interesting without being meaningful.”—David Booth

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1. Eugene F. Fama and Kenneth R. French, “Luck versus Skill in the Cross-Section of Mutual Fund Returns,” *Journal of Finance* 65, no. 5 (2010): 1915–1947. Eugene Fama and Ken French are members of the Board of Directors of the general partner of, and provide consulting services to, Dimensional Fund Advisors LP.
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