

# Index

- Active investing, 44, 52, 56, 57,  
135, 136
- Age. *See also* Time horizon  
and asset allocation, 49, 50,  
58, 140  
expenses associated with, 36  
and life expectancy, 64–67, 72,  
139, 140
- Annuities, 95, 121, 137
- Asset allocation. *See also*  
Bootstrap analysis  
active investing, 44, 52, 56, 57,  
135, 136  
age, problems with as rule of  
thumb, 49, 50, 58, 140  
benchmark as, 39, 45, 50  
benchmark distinguished,  
50–58  
equities, 48, 68–72. *See also*  
Equities  
flexible, 52–56  
importance of, 39  
passive investing, 56–58,  
135, 136  
sectors, 43–47, 52–55, 57, 100,  
139–142  
static, 52, 53  
stock selection, 46–48  
sub-asset allocation, 45, 46  
tactical, 39, 51, 52, 56, 58, 141  
and time horizon, 49, 50, 56,  
68. *See also* Time horizon
- Asset classes  
bonds. *See* Bonds  
equities. *See* Equities  
gold, 81, 90, 91  
price volatility, 63, 80, 90, 91  
real estate, 78, 81, 90, 91
- Balance sheet, 120–123, 137,  
App. D
- Bear markets  
benchmark risk, 53, 55  
followed by bull market, 23  
and importance of broad  
benchmark, 44  
in and out investing, 22–24,  
114, 115  
moving out of stocks, 56  
and passive investing, 57, 58  
and stock returns, 84–88  
volatility risk, 63, 71, 72, 82
- Behavioral finance, 21, 22, 58, 72
- Benchmarks  
bonds, 88, 134  
broad benchmarks, 41–44  
and cash flow needs. *See* Cash  
flow  
changing, 23, 51, 52, 67, 81,  
134  
described, 40  
indexes, 40–44, 134  
as long-term asset allocation  
decision, 39, 45, 50, 51, 135

## Index

- Benchmarks (*continued*)  
outperforming, 42, 52, 55  
overview, 58  
purpose of, 5–8, 41, 42, 134, 135  
return expectations.  
    *See* Returns  
risk and return characteristics, 7, 8, 138, 140  
selecting, 8, 42, 43, 133–135, 138–140  
sticking with, 51, 52, 134, 138  
and time horizon, 43, 51, 55, 58, 61, 68–72, 81, 138, 139  
underperforming, 51, 52
- Bond indexes, 134
- Bonds  
asset allocation, 55, 56. *See also* Asset allocation  
in benchmark, 88, 134  
described, 90, 91  
versus equities, 68–72, 87–88, 90  
and inflation, 29  
in and out investing, 22–24  
interest as source of cash flow, 101, 102  
interest rate risk, 62, 101, 102  
junk bonds, 27, 102  
municipal bonds, 27, 28  
and portfolio survival, 109–116  
risk, 27–29  
US Treasuries, 7, 28, 29, 76, 79, 94  
volatility, 27, 28, 42, 68, 76, 90
- Bootstrap analysis, 108–116, 140
- Bottom-up investing, 47
- Budgets, 9–11, 14, 103
- Buffett, Warren, 22
- Bull markets  
and beating benchmark, 42  
in and out investing, 22–24, 114, 115  
and risk, 22, 23
- Business start-ups, 78
- Capital preservation  
as investment goal, 24–26, 136, 137  
problems with, 26–29, 36, 137.  
    *See also* Inflation
- Cash flow  
and benchmark  
    determination, 116, 138  
determining need, 103–106, 139, App. B, App. C  
dividends, 100–103, 116  
expense categories, 104, App. C  
future value calculation, 123, 124  
and growth, 79, 80, 96, 106, 116  
“homegrown dividends,” 102  
income and expenses, 104, 116, 123, 129, 137, 139, App. B  
overview, 116  
reasonableness of goal, determining, 107–116  
Social Security income, 105  
sources of, 102, 103, 116  
variability of returns, 106, 107
- CDs, 95
- Central banks, 30–33
- Certified financial planner (CFP), 9
- Compounding, impact of  
inflation, 35, 36, 124  
interest, 13, 14, 88, 126, 127
- Consumer Price Index (CPI), 34
- Custody of assets, 95, 143

## Index

- Debunkery* (Fisher), 9, 40, 136, App. A
- Deflation, 31, 32, 79
- Disinflation, 31
- Dividends, 100–103, 116
- Dodd-Frank Act, 9
- Dow Jones Industrial Average (Dow), 40, 135, App. A
- Enron, 27
- Entrepreneurs, 78
- Equities
- asset allocation, 48, 68–72
  - versus bonds, 87, 88, 90
  - dividends, 100–103, 116
  - forward looking, 88
  - growth, 77
  - and growth goal, 80
  - narrow categories, investing in, 77, 78
  - past performance as guide to reasonableness of expected returns, 81–90
  - return expectations, 75, 76, 81–89, 91
  - sectors, 43–47, 52–55, 57, 100, 139–142
  - stock prices, 89
  - stock selection, 46–49
  - stocks, 90, 91
  - unrealistic return expectations, 92–96
  - volatility, 68–71, 77, 80, 81
- Estate planning, 11, 137
- Exchange rate risk, 62
- Exchange-traded funds (ETFs), 48, 56, 57, 135. *See also* Mutual funds
- Fear, 22, 23, 114, 134
- Financial advisors (professionals)
- certifications, 9
  - fees and commissions, 9, 10
  - financial fraud. *See* Fraud
  - Monte Carlo simulations, 108, 110, 140. *See also* Monte Carlo simulation
  - need for, 20, 21
  - role of, 20, 21, 115
  - selecting, 140–142
  - working with, 7–9, 133, 134, 136, 138
- Financial plan, 9, 10
- Financial planners
- certification, 9
  - fees and commissions, 10
- Financial planning
- described, 9, 10
  - as retirement planning, 3, 4
- Financial services industry, 20
- Fisher, Arthur L., 12
- Fisher, Irving, 30
- Forecasting, 89
- Fraud, 92–96, 143
- Friedman, Milton, 30
- Goals
- benchmarking. *See* Benchmarks
  - capital preservation, 24–29, 36, 136, 137
  - cash flow, 24, 25, 36, 79, 80, 136
  - constant value, inflation adjusted, 79
  - growth, 24, 25, 28, 29, 36, 76, 79, 136, 137
  - growth and cash flow combined, 24–26, 36, 136
  - and impact of inflation, 29–36
  - increasing the odds of reaching, 6, 7, 14
  - long-term, 4, 5, 23

## Index

- Goals (*continued*)  
    nearer-term, 4  
    overview, 36  
    realistic, 14  
    and time horizon, 26, 36.  
    *See also* Time horizon  
    unrealistic, 7, 25
- Gold, 81, 90, 91
- Greed, 22, 23, 114, 120, 134
- Growth  
    and cash flow, 79, 80, 96,  
        106, 116  
    equities, 77–79  
    as goal, 24, 25, 28, 29, 36,  
        76, 79  
    and inflation, 79, 80  
    need for, 79, 80  
    underestimating amount  
        needed, 61, 75, 80, 96, 139  
    and volatility, 76, 77, 80, 81, 137
- “Homegrown dividends,” 102
- How to Smell a Rat* (Fisher), 93, 95
- Hyperinflation, 31
- “I, Pencil” (Read), 12
- In and out investing, 22–24,  
    114, 115
- Income and expense sheet, 104,  
    116, 123, 129, 137, 139,  
    App. B
- Inflation  
    adjusting for, 29, 79, 80, 104,  
        106, 109–116, 125–129, 139  
    and capital preservation, 29  
    described, 30–34  
    expense categories, 33, 34  
    future value calculation,  
        123, 124  
    and growth, need for, 79, 80  
    impact of, 36  
    long-term average, 29, 35, 124  
    and purchasing power, 35, 36
- Inflation risk, 7, 62
- Innovation, 91, 92
- Insurance, 10, 11, 137
- Interest, compounded, 13, 14,  
    88, 126, 127
- Interest rate risk, 62
- Investment strategy. *See also*  
    Benchmarks  
    appropriate strategy, sticking  
        with, 21, 23, 24  
    and market conditions, 23, 24  
    and volatility, 76  
    “It’s different this time” response  
        to historical trends, 81, 88
- Junk bonds, 27, 102
- Life expectancy, 64–67, 72,  
    139, 140
- Lifetime investing  
    importance of, 3–5  
    and time horizon, 67. *See also*  
        Time horizon
- Liquidity risk, 62
- Madoff, Bernie, 92, 93
- Malthus, Thomas, 91, 92
- Markets Never Forget* (Fisher), 9,  
    72, 81
- “The Mean-Variance-  
    Optimization Puzzle:  
    Security Portfolios and Food  
    Portfolios” (Fisher and  
    Statman), 62
- Monte Carlo simulation, 107,  
    108, 110, 140. *See also*  
    Bootstrap analysis
- Moore, Gordon, 91
- Moore’s Law, 91

## Index

- MSCI All-Country World Index (MSCI ACWI), 134, 4041
- MSCI USA, 44
- MSCI World Index, 40–43, 51, 53, 54, 134
- Municipal bonds, 27, 28
- Mutual funds. *See also* Exchange-traded funds (ETFs)
- average investor returns, 23, 24
  - capital gains taxes, 47, 48
  - costs, 47, 48
  - index funds, 56
  - versus individual securities, 47, 48
  - in and out investing, 115
- Myopic loss aversion, 22
- Net worth determination, 120–123, 137, App. D
- Non-liquid assets, 123
- The Only Three Questions That Still Count* (Fisher), 9, 40, 56, 136
- Opportunity cost, 62–64, 94
- Overconfidence, 22
- Passive investing, 56–58, 135, 136
- Political risk, 62
- Ponzi schemes, 92, 93. *See also* Fraud
- Portfolio survival, 109–116, 140
- Professionals. *See* Financial advisors (professionals)
- Read, Leonard E., 12
- Real estate, 78, 81, 90, 91
- Recessions, 31–33, 72
- Retirement planning, generally, 3–15
- Returns
- bonds, 87, 88
  - expectations, 75, 76, 96, 138, 139
  - inflation, adjusting for. *See under* Inflation
  - overview, 96
  - past performance as guide to reasonableness, 81–90
  - sources of, 77, 79, 778
  - 10% myth, 106, 107
  - unrealistic expectations, 92–96
  - and volatility, 80, 81, 92, 93, 96. *See also* Volatility
- Risk
- and behavioral finance, 21–23
  - benchmark risk, 53, 55
  - bonds, 27–29
  - bull markets, 22, 23
  - exchange rate risk, 62
  - inflation risk, 7, 62
  - interest rate risk, 62, 101, 102
  - and investing, 6, 7
  - liquidity risk, 62
  - political risk, 62
  - risk and return characteristics
    - of benchmarks, 7, 8, 138, 140
  - volatility risk, 7, 8, 27, 28, 62, 63, 71, 72, 82
- Saving
- calculating amount to save, 123–129
  - net worth determination, 120–123, 137, App. D
  - overview, 119, 129
  - for short-term goals, 4
- Self-assessment, need for, 15
- Skilling, Jeff, 27
- S&P 500 index, 40, 41, 43, 44, 51, 134

## Index

- Specialists, need for, 11, 12  
Standard deviation, 68–70  
Stanford, Allen, 95  
Statman, Meir, 62  
Stock indexes, 40–44. *See also*  
    specific indexes  
Stocks. *See also* Equities  
    and asset allocation, 48, 68–72.  
        *See also* Asset allocation  
    described, 90, 91  
    dividends, 100–103, 116  
    individual stocks versus funds,  
        47, 48  
    and innovation, role of, 91, 92  
    prices, 89  
    selection of, 46–49  
  
Tech bubble, 43, 53, 55  
Templeton, John, 88  
*The Ten Roads to Riches*  
    (Fisher), 78  
Time horizon  
    and age, 68, 140  
    and asset allocation, 49, 50,  
        56, 68, 140. *See also* Asset  
        allocation  
    and benchmarks, 43, 51, 55,  
        58, 61, 68–72, 81, 138, 139  
    described, 64  
    and goal setting, 26, 36  
    life expectancy, 64–67, 72,  
        139, 140  
    long time horizons, 67  
    and opportunity cost, 62–64, 95  
    overview, 72  
    spouse, consideration of, 64, 72  
    underestimating, 61, 63, 64,  
        66, 67  
Top-down investing, 47  
  
US Treasuries, 7, 28, 29,  
    76, 79, 94  
  
Volatility  
    bonds, 27, 28, 42, 58, 76, 90  
    and capital preservation,  
        27, 137. *See also* Capital  
        preservation  
    equities, 77, 80, 81  
    equities versus bonds, 68–71  
    global versus U.S. stock  
        indexes, 43, 44  
    and growth, 76, 77, 80, 81, 137  
    and investment strategy, 76  
    measuring, 68  
    and opportunity cost, 62–64  
    reaction to, 81  
    and returns, 80, 81, 93, 94  
    risk, 7–8, 27–28, 62–63, 71,  
        72, 82

<http://www.pbookshop.com>

<http://www.pbookshop.com>