A Formula for Long-Term Happiness

by Ben Stein
Monday, November 13, 2006

One of the famous sayings of Warren Buffett -- chairman and founder of Berkshire Hathaway, the greatest investor of all time, and the richest man in the nation except maybe for Bill Gates -- is that investors should know their limitations.

By this, he means that investors should know that their chances of beating the large averages and the market as a whole are small if they pick individual stocks.

The data is overwhelming that even the best stock pickers do not, over long periods, beat the large indices like the Dow and the S&P 500 or larger indices like the Vanguard Total Stock Market Index.

The Great Equalizers

In a real stroke of luck for investors, Wall Street has made it possible for the most amateurish investor and the most sophisticated investor to get in on the smart choice -- index funds -- at minimal cost.

There are index funds like the Spyders and the Diamonds (for the S&P 500 Index and the Dow), and the Vanguard Total Stock Market Index, or VTI, for the larger market.

I spend a lot of time criticizing Wall Street for things they do that I don't like. There's plenty not to like, especially management buyouts aided by Wall Street.

But let's also be thankful that Wall Street has put in our path a number of super-great, very-low-cost investment options such as the SPY, the DIA, and the VTI that never existed before, and let's take advantage of them. They're the great equalizers of the investment world. Again, use them or lose them.

But in the meantime, let's remember something very basic. None of these fabulous investment vehicles will do any good -- whether bought as cash investments or as variable annuities -- unless you actually go out there and save.

Up in Smoke

I'm 61, and have many friends who are roughly the same age. In fact, most of my friends range in age from 50 to around 65. Some of them are far happier and more self-confident than others. Some of them have plans to go places, play golf, take photos of exotic lands.

That's some of them. The others are in fear, afraid to leave their houses, afraid to think of growing old -- just plain afraid.

I can think of two major differences between the ones who are successful and the ones who are not. The first difference is that the confident group did not disable themselves by drug use or excessive alcohol use.

It's an amazing thing, but it's true: The men and women I know who have spent a lot of time smoking pot have, by and large, thrown their lives away in the pursuit of feeling no pain. There are exceptions, but typically they can barely get out of bed, let alone pursue a career aggressively or save in a disciplined way.

Basic, long-term sobriety seems to me a precondition for a successful life, and certainly a precondition -- in most cases -- for a life of prudence as far as money is concerned. The man or woman lost in marijuana-induced bliss cannot and will not be able to evaluate investment options and pick the best ones -- it's that simple. One of the many blessings of sobriety is to be able to invest sensibly.

Keeping It Realistic

The second characteristic I notice of happier people in their old age is a sense of reality about saving and investing.

They don't think there will be magical solutions to their problems. They don't think they will find the next penny stock that makes them rich. They just plod along buying conservative, proven investments like low-cost index funds and variable annuities picked carefully with an eye on fees.

To put it another way, happier people know this simple mathematical fact: If you don't put money in, you won't be able to get money out.

The Not-So-Secret Secret

When I used to do my quiz show, *Win Ben Stein's Money*, I had a makeup artist who would say about the stock market, "I have to learn the secret of this thing." But no one except maybe Buffett and a handful of others knows the secret. I certainly don't.

Maybe there is no secret except buying good companies and buying the index funds. Maybe just regular, consistent saving in index finds -- which, over long periods, far outperform real estate or any other widely available investment -- is the "secret."

The "secret" is kept a secret because at many times real estate or sector funds or individual stocks or managed funds will outperform the indexes. But over long periods, the indices always win out. Look for the long-term results and you'll be a happier investor. But it takes patience.

So, today's lessons: Know your limitations; stay sober; be patient; and don't swing for the fences -- just save regularly and consistently in obvious choices like index funds. Those "secrets" will get you to a happy, confident later life.