

PERSPECTIVES

Think Investing Is a Game? Stop.

David Booth
Executive Chairman and Founder

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It's easy to view the stories of market speculation that have dominated the news recently as cautionary tales for individual investors. But we can also look at the current moment as an opportunity to welcome a new group of investors to the market: those who have been drawn in by all the high-stakes action, and yet may want a consistent, long-term investment solution that doesn't keep them up at night. This is probably a good time to mention that investing and gambling are not the same thing.

If you're not the type of person who feels comfortable betting your life savings on a long shot, the good news is that you don't have to find the next big stock to win in the stock market. Concentrating your whole investment on one or two companies means the stakes are high enough to expose you to unnecessary risk. Even if you manage to land a few big winners, our research has found that good luck is unlikely to repeat throughout a lifetime of investing. For every individual who got in and out of a hot stock at the right time, there's another who bought or sold at the wrong time. If you treat the market like a casino, not only do you have to pick the right stock, but also the right moment.

I've always believed you're better off betting with the whole market than on individual stocks, through a low-cost, highly diversified portfolio. Then let time and compounding do their work. Compounding is the investor's best friend: if an investment grows at a rate of 10% a year, that means a dollar invested has doubled every seven years.¹ As a point of reference, the S&P 500 has grown at rate of 10.26% since 1926, though it's worth noting that [the path is rarely smooth](#).

With all the options now available to investors, putting together a solid investment plan—one that you can stick with—is key. Markets have never been so accessible, and information has never been so widely available. And despite the fact that stories of stock-market gambling keep making the news, many investors have managed to enjoy growth in their investments using low-cost, highly diversified strategies like index funds.

Indexing has turned out to be a good solution for many people. I was involved in the creation of one of the first index funds early in my career, and I've enjoyed watching the positive impact indexing has had on the industry. For those who want more customization and flexibility, there are ways to build on the strengths of indexing while correcting for some of its weaknesses. At Dimensional, we've been working on improving

upon indexing for the past 40 years.

If you're looking to become a long-term investor, commit to a long-term strategy that takes your own personal goals, situation, and risk tolerance into account. (A financial advisor can help with this part.) And remember that although the US stock market has returned about 10% a year on average, returns for individual companies and individual years can vary wildly. (We call these uneven distributions "fat tails.") It's always important to look at the big picture. A huge win on a stock bet today doesn't mean much if you lose it tomorrow.

Investing is a lifelong journey. Making money slowly is much better than making—then losing—money quickly.

LEARN MORE

[Flexibility in Practice: How We Handled GameStop
Gauging Market Expectations?
The Seductive Nature of Fat Tail Distributions](#)

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