William Bernstein

by John Hunter

I am a great fan of William Bernstein (www.efficientfrontier.com). His book 'The Intelligent Asset Allocator' (TIAA), now some 20 years old, turned the light on for me when – post-retirement – I was attempting to turn my professional understanding of investment analysis in the corporate world into what I discovered was the very different science of personal investment. I was encouraged in my admiration by the fact that he was (and to some extent still is) a practising neurologist, i.e he has a scientific training but his advice is unconnected with the means by which he makes a living. Translation: he's not trying to make money out of me. Further translation: he's not a part of the financial services industry. He also lives in Oregon, encouragingly remote from any well-known financial centre.

TIAA is about one leg of the investment process, but one that he shows is ten times as important as stock selection or market timing. But it also contains the seeds of his total investment beliefs which he has since encapsulated in a series of books, but also condensed into a simple (well, fairly simple) road map for savers, most completely explained in 'The Four Pillars of Investing' – described as 'aimed at the liberal-arts major seeking investment competence' (revised edition 2012). He has since turned his attention to advice for millennials in a snappy 20-page pamphlet 'If You Can: how millennials can get rich slowly' which re-presents his four pillars as five 'hurdles', the new first hurdle being something so obvious it didn't need stating in the 'Four Pillars' but possibly does for millennials. In his own words these are:

If you can't save you'll die poor
Finance isn't rocket science but you'd better understand it clearly
Those who ignore financial history are condemned to repeat it
We have met the enemy and he is us
The financial services industry wants to make you poor and stupid

Bernstein has a weakness for the aphorism (which on the plus side makes him fun to read) and another weakness in that he writes in American so I would translate these, less catchily, as:
The first stage in the investment process is to spend less than you earn
There are some technical matters that you have to learn
You need a knowledge of the history of finance to learn certain essential lessons
(I'm not totally convinced by this. You can certainly learn a lot from the history of the great market cycles but I suspect you can get along without it – I wouldn't put it on a level with the other four hurdles. I suspect Bernstein was persuaded by his great interest in financial history to give himself an excuse to write about it)
We have behavioural biases that work against us making good investment decisions
The financial services industry can only make money out of YOU – it redistributes the wealth created by others and therefore collects rent; it does not create wealth.
If you are not stupid you can avoid paying the rent

In my own primer on investment basics I have my own set of nine key facts. They are:
Investment principles are immutable but implementation is a personal matter.
The difference between saving and investment is a false distinction; both are just an absence of spending.
Return and compound interest: small differences in return matter.
Risk is a consequence of uncertainty and is personal to the individual investor - a measure of personal disappointment at unfavourable outcomes.
Every 'investment' is a choice between alternatives and a bet on relative outcomes.
The market delivers a return premium to the investor for taking on uncertainty.
For every buyer there must be a seller; therefore the market is a zero-sum game as between total participants.
Identify misinformation before making a decision.
Diversification is the only free lunch.

I can just about persuade myself that Bernstein finds a place for these thoughts under each of his five headings. I certainly hope so. What are *your* investment basics? ***by John Hunter***