

Extract from the 2014 Letter to Shareholders of Berkshire Hathaway (page 19) -

<http://www.berkshirehathaway.com/letters/2014ltr.pdf>

If the investor, instead, fears price volatility, erroneously viewing it as a measure of risk, he may, ironically, end up doing some very risky things. Recall, if you will, the pundits who six years ago bemoaned falling stock prices and advised investing in “safe” Treasury bills or bank certificates of deposit. People who heeded this sermon are now earning a pittance on sums they had previously expected would finance a pleasant retirement. (The S&P 500 was then below 700; now it is about 2,100.) If not for their fear of meaningless price volatility, these investors could have assured themselves of a good income for life by simply buying a very low-cost index fund whose dividends would trend upward over the years and whose principal would grow as well (with many ups and downs, to be sure).

Investors, of course, can, by their own behavior, make stock ownership highly risky. And many do. Active trading, attempts to “time” market movements, inadequate diversification, the payment of high and unnecessary fees to managers and advisors, and the use of borrowed money can destroy the decent returns that a life-long owner of equities would otherwise enjoy. Indeed, borrowed money has no place in the investor’s tool kit: Anything can happen anytime in markets. And no advisor, economist, or TV commentator – and definitely not Charlie nor I – can tell you when chaos will occur. Market forecasters will fill your ear but will never fill your wallet.

The commission of the investment sins listed above is not limited to “the little guy.” Huge institutional investors, viewed as a group, have long underperformed the unsophisticated index-fund investor who simply sits tight for decades. A major reason has been fees: **Many institutions pay substantial sums to consultants who, in turn, recommend high-fee managers. And that is a fool’s game.**

There are a few investment managers, of course, who are very good – though in the short run, it’s difficult to determine whether a great record is due to luck or talent. **Most advisors, however, are far better at generating high fees than they are at generating high returns. In truth, their core competence is salesmanship.** Rather than listen to their siren songs, investors – large and small – should instead read Jack Bogle’s *The Little Book of Common Sense Investing*.

Decades ago, Ben Graham pinpointed the blame for investment failure, using a quote from Shakespeare: “The fault, dear Brutus, is not in our stars, but in ourselves.”