

From: Grow | Marinis Group
Sent: Friday, 4 April 2014 1:57 PM
To: Grow | Marinis Group
Subject: FW: Reinforcing the MFG Investment View
Attachments: 2014 04 04 - Warren Buffet Letter - Feb 2014.pdf

Dear Friends

As most of you know, I don't believe in gambling with retirement savings. In fact, I have even been accused by would-be clients of being 'boring' because I have never advocated margin-lending or risky get-rich-quick schemes. This view is based on my economics training, past service with the ATO, Centrelink and the Insurance & Superannuation Commission and close to 20 years in the financial services industry.

It has been my long held belief that the best way to long term financial success is to spread investment risk across as many shares and asset classes as possible, on the premise that holdings will rise in value, some will fall, but on average the investor should have a more peaceful experience.

Consistent with MFG's investment philosophy, we recommend that our clients invest in a core strategy which uses the services of 'index' managers (currently Vanguard Investments and Blackrock Investment Management) – managers who have demonstrated cost effectiveness and efficiency of delivery over a sustained period.

It was with some delight therefore, to have this philosophy echoed by Warren Buffett (Chairman and CEO of Berkshire Hathaway, and widely considered the most successful investor of the 20th century). Dubbed 'The Oracle of Omaha', Buffet, now in his 80s, has decided he will donate most of his enormous wealth to the Bill and Melinda Gates foundation.

In his annual letter to the world, Buffett talks about his financial provisions for his wife in the event of his prior death; he recommends that her money be managed through a low cost fund offered by Vanguard Investments – an 'index' fund almost identical to that recommended by Marinis Financial Group to our clients for approximately the last five years.

Whilst I would hasten to say that I am NOT the Oracle of Omaha, I believe that this recommendation does indeed, validate MFG's investment philosophy. Even if you are not a genius like Buffett (with billions of dollars available for investment) the sensible thing to do would be to 'buy the market' via index investing and sleep well at night!

I share this information in the hope that our clients will feel reassured that their investment posture is similar to that recommended by the world's best investor to his family.

If you would like to read Warren Buffett's letter in full, I refer you in particular to page 20 of his letter for his validation of Index investing!

Please click **here**:

http://www.berkshirehathaway.com/letters/2013ltr.pdf?_ga=1.190495787.1893510057.1395629427

For your convenience, the relevant paragraph of the letter is quoted below:

My money, I should add, is where my mouth is: What I advise here is essentially identical to certain instructions I've laid out in my will. One bequest provides that cash will be delivered to a trustee for my wife's benefit. (I have to use cash for individual bequests, because all of my Berkshire shares will be fully distributed to certain philanthropic organizations over the ten years following the closing of my estate.) My advice to the trustee could not be more simple: Put 10% of the cash in short-term government bonds and 90% in a very low-cost S&P 500 index fund. (I suggest Vanguard's.) I believe the trust's long-term results from this policy will be superior to those attained by most investors – whether pension funds, institutions or individuals – who employ high-fee managers.

As always, if you have any questions or comments, please feel free to get in touch with me or any member of the Marinis Financial Group.

Yours sincerely

Theo Marinis B.A, B.Ec, CPA, CFP®

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Most investors, of course, have not made the study of business prospects a priority in their lives. If wise, they will conclude that they do not know enough about specific businesses to predict their future earning power.

I have good news for these non-professionals: The typical investor doesn't need this skill. In aggregate, American business has done wonderfully over time and will continue to do so (though, most assuredly, in *unpredictable* fits and starts). In the 20th Century, the Dow Jones Industrials index advanced from 66 to 11,497, paying a rising stream of dividends to boot. The 21st Century will witness further gains, almost certain to be substantial. The goal of the non-professional should not be to pick winners – neither he nor his “helpers” can do that – but should rather be to own a cross-section of businesses that in aggregate are bound to do well. A low-cost S&P 500 index fund will achieve this goal.

That's the “what” of investing for the non-professional. The “when” is also important. The main danger is that the timid or beginning investor will enter the market at a time of extreme exuberance and then become disillusioned when paper losses occur. (Remember the late Barton Biggs' observation: “A bull market is like sex. It feels best just before it ends.”) The antidote to that kind of mistiming is for an investor to accumulate shares over a long period and never to sell when the news is bad and stocks are well off their highs. Following those rules, the “know-nothing” investor who both diversifies and *keeps his costs minimal* is virtually certain to get satisfactory results. Indeed, the unsophisticated investor who is realistic about his shortcomings is likely to obtain better long-term results than the knowledgeable professional who is blind to even a single weakness.

If “investors” frenetically bought and sold farmland to each other, neither the yields nor prices of their crops would be increased. The only consequence of such behavior would be decreases in the overall earnings realized by the farm-owning population because of the substantial costs it would incur as it sought advice and switched properties.

Nevertheless, both individuals and institutions will constantly be urged to be active by those who profit from giving advice or effecting transactions. The resulting frictional costs can be huge and, for investors in aggregate, devoid of benefit. So ignore the chatter, keep your costs minimal, and invest in stocks as you would in a farm.

My money, I should add, is where my mouth is: What I advise here is essentially identical to certain instructions I've laid out in my will. One bequest provides that cash will be delivered to a trustee for my wife's benefit. (I have to use cash for individual bequests, because *all* of my Berkshire shares will be fully distributed to certain philanthropic organizations over the ten years following the closing of my estate.) My advice to the trustee could not be more simple: Put 10% of the cash in short-term government bonds and 90% in a very low-cost S&P 500 index fund. (I suggest Vanguard's.) I believe the trust's long-term results from this policy will be superior to those attained by most investors – whether pension funds, institutions or individuals – who employ high-fee managers.

And now back to Ben Graham. I learned most of the thoughts in this investment discussion from Ben's book *The Intelligent Investor*, which I bought in 1949. My financial life changed with that purchase.

Before reading Ben's book, I had wandered around the investing landscape, devouring everything written on the subject. Much of what I read fascinated me: I tried my hand at charting and at using market indicia to predict stock movements. I sat in brokerage offices watching the tape roll by, and I listened to commentators. All of this was fun, but I couldn't shake the feeling that I wasn't getting anywhere.

In contrast, Ben's ideas were explained logically in elegant, easy-to-understand prose (without Greek letters or complicated formulas). For me, the key points were laid out in what later editions labeled Chapters 8 and 20. (The original 1949 edition numbered its chapters differently.) These points guide my investing decisions today.