eGrow **2nd December 2016**

Subject: My Get Rich Slowly Philosophy – (it can help you to stay rich)!

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Dear Friends

Chatting the other day to Simon, my buddy in Melbourne, I was a little envious as he recounted the fun he'd had at The Rails – a special Melbourne Cup 'invitation only' area right next to the track at Flemington.

Curiosity got the better of me, and I asked "did you have a punt" – and "did you win?"

After a lot of "it was a great day out" comments, I asked "how much did you lose?" He admitted to $100, which, given his circumstances is not a lot, but still a significant amount.

When I asked him if he chose horses based on colours or names, Simon got a bit riled-up and insisted that no, he had 'done his research'. He claimed to have chatted to insiders, looked at the horses in the mounting yards, and to have been given some special insights…. but he still lost a fair amount of money.

There are parallels in investing; the variables are so significant that it is statistically almost impossible to win over the medium to long term by trying to 'pick winners'.

Looking at a recently published report which compares the performance of 'actively' managed funds versus the broader market index, I was not the least bit shocked to read that 69.18% of Australian equity funds, 91.89% of international equity funds and 88.68% of Australian bond funds **were outperformed by the index**. Based on these results, in all categories over a five-year period, the vast majority of people would have done better to 'buy the market'.

If you are interested in reading this report in full, click on the following link.

https://www.vanguardinvestments.com.au/adviser/adv/articles/insights/research-commentary/vanguard-voices/its-all-about-cost.jsp?utm_source=AdviserDigest

Buying the market (or investing by holding the weighting of stocks in a market index) also known as "Index Investing", is a term which can be used to describe a managed fund which invests, say, in a percentage of every company in the top 200 companies listed on a given stock exchange – the ASX for example. Therefore, for an individual investment of $200,000, the fund would buy shares in each company in accordance with their weighting in the relevant stock market index, achieving an average return which is in line with the market performance as a whole. (Whilst it must always be stressed that past performance is not an indicator of future success, the ASX has delivered 9.6% per annum over the 30 years until 30th June 2016).

There is further advantage in the use of this approach. The investment management costs which apply to most 'index' funds are significantly lower than 'actively managed' funds. For example, these costs can range from an average of 0.30% for index funds to a range of between 0.80% - 2.00%+ for funds which rely on an active management process. This may sound like a small difference, but it is indeed significant over the medium to long term. Fees really do matter to long term outcomes.

Getting back to the Cup, Simon tells me his friend Jacqui backed this year's winner, Almandin, based on her 'research' and her hunch that it would perform; she was delighted with her return from the TAB. At the other extreme, however, one of her friends backed Rose of Virginia – which came last. It could be said that there are similarities in 'stock picking'!

When it comes to long term savings, such as superannuation, it is far better from a wealth creation perspective to take a conservative approach. As I like to say, it is better to adopt the bookmaker's strategy and 'buy the field' – or – invest in an index fund and 'buy the market. That way, the odds are really in your favour.

A downside of the index approach to investing means you will probably miss out on the spectacular wins, like those who backed Almandin, or those who invested early in the mining company Poseidon in the 1970s and sold them close to the end. However, the people who bought Poseidon 'late' all lost their money – as did Simon, who backed Exospheric!

What you will get by 'buying the market' are predictable, safe, stable and healthy returns, because statistically, your wins will more than cover your losses. Buying the market is the shock absorber which smooths out the investment road. It can help you to get rich (albeit more slowly)… but it can also help you to stay rich.

Simon also mentioned that he saw a high profile bookmaker fly out of Flemington in a helicopter… as he (and most of the other gamblers) caught the train home!

As always, if you would like to know more specific details about this edition of eGrow, including Jacqui's tip for the 2017 Melbourne Cup, please don't hesitate to contact me or any of the Marinis Financial Group team.

Kind Regards

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