"A wealth of real-world examples that illuminate a path to investment success."
–Don Phillips, Morningstar, Inc.

Wealth of Experience

real investors on what works and what doesn't

by Andrew S. Clarke

Foreword by
Jack Brennan
Chairman and CEO, The Vanguard Group

Wealth of EXPERIENCE

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John Wiley & Sons, Inc.

Published by John Wiley & Sons, Inc., Hoboken, New Jersey.
Published simultaneously in Canada.

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ISBN 0-471-22684-X

Printed in the United States of America.

10 9 8 7 6 5 4 3 2 1

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FOREWORD

Ever since I was in high school, I have coached kids' sports in my free time. After coaching hundreds of boys and girls over the last few decades, I still find it fascinating to participate in the development of young athletes. Many factors contribute to a young athlete's development, including a desire to succeed, innate ability, good coaching, and lots of practice sessions. But good athletes must also be able to learn from experience. And those who make the most progress are the ones who are able to learn from their own successes and failures on the playing field—and from the successes and failures of other players.

In investing, it's also important to learn from experience. You can read all the investment advice books you want—and there are more with every passing year!—but there is no substitute for lessons learned in life. In some cases, those real-world experiences are more valuable than all the investment theory you'd get in any graduate-level finance course.

For example, anyone who was invested in the stock market in 2000–2002 certainly gained a memorable lesson about risk. The Standard & Poor's 500 Index declined –49.15% from March 24, 2000, to October 9, 2002, marking that period as the stock market's deepest and longest downturn since the Great Depression. Most equity investors have been sorely tested by this relentless bear market. Some threw up their hands and fled from stocks to the apparent safety of money markets and bonds.

The valuable lesson to draw from the recent bear market is not that stocks are too risky. Rather, the right lesson is about the value of investing with balance—holding both stocks and bonds to mute the overall volatility of a portfolio. The bear market also demonstrated the wisdom of diversification—spreading one's money across a range of stocks (or bonds) instead of investing in narrow market sectors or in the holdings of a few companies.

Learning about balance and diversification is valuable, but the cost of these lessons was terribly high for some investors. Trillions of dollars in wealth evaporated in the bear market, and many individuals who held concentrated, undiversified portfolios lost so much money that they've had to make changes in their current lifestyle or defer their dreams of retirement.

There's an old saying that experience is the worst teacher because it always gives the test first and the instruction afterward. So how does one get the benefit of experience without suffering all of the hard knocks? One of the best ways I know is to learn from the experiences of others—both the positive experiences and the negative ones. During more than two decades at Vanguard, I've spoken with thousands of shareholders and learned a great deal from them. These are ordinary people—largely do-it-yourself investors—who by dint of focus and discipline have achieved financial security. Their wisdom was a key source for our 2002 book, *Straight Talk on Investing: What You Need to Know*.

For *Wealth of Experience: Real Investors on What Works and What Doesn't*, by my colleague Andy Clarke, we decided to take a systematic look at our clients' experiences. In his research, Andy uncovered many of the same themes that run through *Straight Talk*, namely, that successful investing is largely a matter of constructing a prudent, well-diversified plan that suits your individual goals, time horizon, and risk tolerance and that minimizes your costs—and then sticking to it. Of course, that's easier said than done, given the fads and distractions that can lead an investor astray.

Wealth of Experience is based on comments from 600 Vanguard shareholders who answered a 2002 survey about their investing attitudes, goals, and preferred strategies. These respondents are, again, ordinary people who have accumulated wealth by developing sound investment plans and sticking with those plans through all kinds of mar-