<u>Six Life Lessons That Also Apply to Investing</u>

Beyond returns, a good investing experience depends on how you feel on the journey – just like in life.

Written by: David Booth, Chairman and Founder of Dimensional – published on Kiplinger.com, January 7, 2024

No matter how familiar you are with investing, you've navigated uncertainty, weighed risks and rewards, and made carefully considered tradeoff decisions. You've tackled the central challenges of life – which also happen to be the central challenges of investing.

Having a good investment experience is about more than returns. It's about how we feel along the journey. Investing should help us live better, more fulfilling lives. By integrating our life and investment philosophies, we can see money as a tool that empowers our plans rather than as a goal in and of itself. Here are six principles that can help us in life and investing.

Uncertainty creates opportunity

Uncertainty can be uncomfortable, but without it there would be no opportunity. When we decide to move to a new city or change career paths, we don't know exactly what will happen. Yet these experiences help us grow and change our lives.

When we invest, returns are compensation for taking on uncertainty. <u>Without risk, there would be no reward.</u> But there's also risk in *not* investing. If our money doesn't grow over time, it won't go as far in the future.

This approach to life and investing guides us through uncertain times and helps refocus our attention on the opportunities ahead.

Plan, don't predict

None of us has a crystal ball, so we develop strategies to help manage an uncertain future. We apply to a list of potential colleges, not just our first choice. We pack more than what we think we need and get to the airport three hours early. We wear a life jacket on a boat, even though we know how to swim.

Investing is just like life: We make plans that account for a broad range of possible outcomes. This way we can feel empowered by the unknown instead of paralyzed by it.

Research has shown that <u>stock returns are not predictable.</u> That's why it's best to focus on planning for what *can* happen, rather than trying to predict what *will* happen. The good news is we don't need to be able to pick stocks to have a good investment experience. Over the past century, markets have returned, on average, about 10% a year, based on S&P 500 index annual returns, 1926-2022. And the market's returns are available to every investor through a range of low-cost, <u>diversified strategies.</u>

So don't try to outguess markets – trust them (and be prepared for some short-term disappointments from time to time). Odds are you'll have a better investment experience in the long run.

Flexibility adds value

When you're in the market for a new car, you probably know exactly what you want, down to the color of the interior trim. But it can be hard to locate the precise model and features you're after, and once you do find them, you may have to pay a premium.

If you’re willing to be flexible – maybe going with black instead of gray – you can get that new car faster, and at a better price.

Flexibility adds value in investing, too. Staying flexible around what stocks to hold and when to trade can give you an advantage. While index funds are a solid, low-cost solution for many investors, they are forced to trade on certain days to track their index. The funds may not get the best prices on the securities they hold, resulting in investors leaving returns on the table.

Harness the power of compounding

Even the small, seemingly inconsequential decisions we make can have a big impact over time. Whether we’re training for a marathon or learning a foreign language, each step moves us closer toward our goals.

The same is true of investing. A 10% return on your investment each year – similar to the stock markets historical annualized average – would double your money every seven years. Starting early can help an investor make up for not having a lot of money to invest right away.

In both life and investing, compounding is a powerful force. Many people feel they don’t have enough money to invest, but even small savings can help prepare you to cross the finish line.

Control what you can control

So much in life is out of our control, whether it’s the weather or the fate of our favorite sports teams. However, we can take charge of how we prepare for and react to life’s curveballs. We may not need an umbrella every day, but it comes in handy when the uncontrollable happens.

In investing, you can’t control the ups and downs of the market. What you can control is how much you save, the risk you take on and the guidance and research you seek in putting together an investment plan that’s right for you.

The future is uncertain, but the quality of your decisions doesn’t have to be. When you make informed choices, you have the satisfaction of knowing you did everything within your control, even if things didn’t work out exactly the way you’d hoped.

Tune out the noise

When we focus on an important goal, other people’s opinions can be distracting, even derailing. Who cares if a friend doesn’t agree with your new exercise plan, as long as it’s working for you? Once you’ve come up with an informed road map for success, rally your supporters and turn down the volume on your detractors.

This mindset is also key to being a successful long-term investor. Many of us are exposed to a barrage of investment commentary, from TV pundits shouting predictions, to friends touting the “next big investment,” to our smartphone pushing us the latest news every minute. Things that seem too good to be true usually are – and yielding to our “fear of missing out” can exact a deep price in the form of lower returns over a lifetime.

We all know that markets rise and fall – so we can be disappointed by downturns, but we shouldn't be surprised by them. Reacting emotionally to market volatility may be more detrimental to your portfolio performance than the drawdown itself.