20 Lessons From 20 Years of Managing Money

Posted March 10, 2024 by Ben Carlson of Ritholtz Wealth Management

I entered the workforce in 2005.

That means I've been working in the investment business for 20 years now.

The longer I'm in the money management business the more there is to learn but these are some of the things I've learned thus far:

1. Experiences shape your perception of risk. Your ability and need to take risk should be based on your stage in life, time horizon, financial circumstances and goals.

But your desire to take risk often trumps all that, depending on your life experiences. If you worked at Enron or Lehman Brothers or AIG or invested with Madoff, your appetite for risk will be forever altered.

And that's OK as long as you plan accordingly.

2. Intelligence doesn't guarantee investment success. Warren Buffett once wrote, "Investing is not a game where the guy with the 160 IQ beats the guy with the 130 IQ. Once you have ordinary intelligence, what you need is the temperament to control the urges that get other people into trouble in investing."

I've met so many highly educated individuals who are terrible investors. They can't control their emotions because their academic pedigree makes them overconfident in their abilities.

Emotional intelligence is the true sign of investment smarts.

3. No one lives life in the long-term. Long-term returns are the only ones that matter but you have to survive a series of short-terms to get there.

The good strategy you can stick with in those short-terms is preferable to the perfect strategy you can't stick with.

4. The only client question that matters is: "Am I going to be OK?" Each situation is unique in that everyone has their own set of fears and desires.

The answer everyone is looking for is the same, though: Just tell me I'm going to be OK.

5. It's never been easier or harder to set-it-and-forget-it. Investors have never had it better in terms of the ability to automate investments, contributions, allocations, rebalancing and dividend reinvestment.

But there has never been more temptation to tinker with your set-it-and-forget-it portfolio because of all the new investment products, funds, zero-commission trading platforms, and trading opportunities.

Every day it becomes harder and harder to avoid the new forbidden fruit.

6. Rich people hate paying taxes more than they like making more money. I'm only half kidding but the more money people have the more they look for ways to avoid paying Uncle Sam.

7. Getting rich overnight is a curse, not a blessing. I'm convinced that the people who build wealth slowly over the course of their career are far better equipped to handle money than those who come into it easily.

It means more to those who acquired wealth through patience and discipline.

8. Investing is hard. Ironically, coming to this realization can make it a little easier.

9. The biggest risks are always the same…yet different. The next risk is rarely the same as the last risk because every market environment is different.

On the other hand, the biggest mistakes investors make are often the same — timing the market, recency bias, being fearful when others are fearful and greedy when others are greedy and investing in the latest fads.

It's always a different market but human nature is the constant.

10. The market doesn't care how clever you are. There is no alpha for the degree of difficulty when investing.

Trying harder doesn't guarantee more profits.

11. A product is not a portfolio and a portfolio is not a plan. The longer I do this, the more I realize that personal finance and financial planning are prerequisites for successful investing.

12. Overthinking can be just as debilitating as not thinking at all. Investing involves irreducible uncertainty about the future.

You have to become comfortable making investment decisions with imperfect information.

13. Career risk explains most irrational decisions in the investment business. There is a lot of nonsense that goes on in the investment business. Most of it can be explained by incentives.

14. There is no such thing as a perfect portfolio. The best portfolio is the one you can stick with come hell or high water, not the one that's the most optimized for silly formulas or spreadsheets.

15. Our emotions are rigged, not the stock market. The stock market is one of the last respectable institutions. It's not rigged against you or anyone else.

The Illuminati is not out to get you but your emotions just might be if you don't know how to control them.

16. Experience is not the same as expertise. Just because you've been doing something for a long time doesn't mean you're an expert.

I know plenty of experienced investors who are constantly fighting the last war to their own detriment.

How many people who "called" the 2008 crash completely missed the ensuing bull market? All of them?

How many investment legends turn into permabears the older they get becasue they fail to recognize how markets have changed over time?

Loads of investment professionals who have been in the business for many years make the same mistakes over and over again.

17. Being right all the time is overrated. Making money is more important than being right in the market.

Predictions are more about ego than making money.

18. There is a big difference between rich and wealthy. Lots of rich people are miserable. These people are not wealthy, regardless of how much money they have.

There are plenty of people who wouldn't be considered rich based on the size of their net worth who are wealthy beyond imagination because of their family, friends and general contentment with what they have.

19. Optimism should be your default. It saddens me to see an increasing number of cynical and pessimistic people every year.

I understand the world can be an unforgiving place and things will never be perfect but investing is a game where the optimists win.

20. Less is more. I've changed my mind on many investment-related topics over the years. But you will never convince me that complex is better than simple.

So many investors assume complicated implies sophisticated when simplicity is the true form of sophistication when it comes to investment success.

Further Reading:
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