Passive Personal Investment Strategies are More Time Efficient with Better Returns and Risk Control

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Passive Personal Investment Strategies are More Time Efficient with Better Returns and Risk Control The scientific investment literature indicates that passive investment strategies usually are more time efficient, while they also increase returns and add more value to your investment portfolio. For example, given the diversification imperative, it is highly questionable whether the vast majority of individual investors should own any common stocks or bonds directly. Instead, they can achieve similar expected returns with less time, lower risk, lower cost, and low taxes by owning passively managed index mutual funds or exchange-traded funds.Most individual investors should not try to mimic the activities of professional portfolio managers of mutual funds and ETFs. Most investors do this quite poorly. They should not try to track and make decisions on a myriad of details about dozens or hundreds of firms. See: What is the cost to individual investors of sub-optimal portfolio diversification? Improved time efficiency is a side benefit of choosing a broadly diversified, market investment strategy that you implemented through low cost index mutual funds and ETFs.Index mutual funds and exchange-traded funds require far less personal attention. Selecting and tracking a portfolio of individual equity and fixed income securities is a task that can be more profitably delegated to professionally managed funds. If you chose broadly diversified, cost and tax efficient funds, you can let career professionals do more efficiently, what you pay them to do full-time. In a similar vein, the scientific investment literature strongly favors strategies that tend to be passive rather than active in nature. Once an investor puts an optimal strategy in place, better results tend to accrue from leaving things alone rather than constantly twiddling with them and driving up costs and taxes. Being active tends to reduce gross returns through tactical errors and higher trading costs. Obviously, being active also takes far more time, as you try to second-guess the markets and other smart investors. This activity has an opportunity cost. The time you spend on investing takes valuable time away from other activities that you might prefer to do. Monitoring and adjusting your financial plan requires a periodic commitment of your time, but that commitment need not be excessive. If you choose optimal investment strategies, properly automate financial tracking with computer tools, and set up periodic, automated investing to the degree possible, then spending more time on personal investing becomes a choice and not a necessity. Despite the great importance of having a personal financial plan and an optimal investment strategy, people have lives to live, work to attend to, and family and friends to love and play with. Financial and investment planning should not impose an excessive time burden, and the personal time expended should be cost-effectively applied. Unless financial planning and investing is an enjoyable hobby, which it is to some, there is a significant personal cost to spending time on investing. It is important to calculate your “investment wage” for the time spent on investment management and to ensure that this wage remains high. See: Calculating your investment wage and the opportunity cost of your time . Time in life is the most precious and perishable asset anyone has, and it ought to be spent wisely, efficiently, and enjoyably. Scientific strategies combined with relatively efficient financial markets allow people to minimize their time commitments. The can obtain optimal, near-market, risk-adjusted returns after low cost and low taxes are taken into account. See: Passive individual investors are “free riders” who benefit from the higher costs of active traders.