



A Wealth of Common Sense: Why Simplicity Trumps Complexity in Any Investment Plan

(Bloomberg)

Ben Carlson

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A simple guide to a smarter strategy for the individual investor

A Wealth of Common Sense sheds a refreshing light on investing, and shows you how a simplicity-based framework can lead to better investment decisions. The financial market is a complex system, but that doesn't mean it requires a complex strategy; in fact, this false premise is the driving force behind many investors' market "mistakes." Information is important, but understanding and perspective are the keys to better decision-making. This book describes the proper way to view the markets and your portfolio, and show you the simple strategies that make investing more profitable, less confusing, and less time-consuming. Without the burden of short-term performance benchmarks, individual investors have the advantage of focusing on the long view, and the freedom to construct the kind of portfolio that will serve their investment goals best. This book proves how complex strategies essentially waste these advantages, and provides an alternative game plan for those ready to simplify.

Complexity is often used as a mechanism for talking investors into unnecessary purchases, when all most need is a deeper understanding of conventional options. This book explains which issues you actually should pay attention to, and which ones are simply used for an illusion of intelligence and control.

Keep up with—or beat—professional money managers Exploit stock market volatility to your utmost advantage Learn where advisors and consultants fit into smart strategy Build a portfolio that makes sense for your particular situation

You don't have to outsmart the market if you can simply outperform it. Cut through the confusion and noise and focus on what actually matters. *A Wealth of Common Sense* clears the air, and gives you the insight you need to become a smarter, more successful investor.

A Wealth of Common Sense: Why Simplicity Trumps Complexity in Any Investment Plan (Bloomberg) Details

Date : Published May 15th 2015 by Bloomberg Press

ISBN :

Author : Ben Carlson

Format : Kindle Edition 225 pages

Genre : Economics, Finance, Nonfiction, Currency, Money, Business



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John Ross says

This book was an unsolicited gift from my brokerage house (TRPrice), a "freebie." Fortunately, I was looking for one investment book to read this year so thought this book might be a candidate. (Plus, if I didn't like it, I could just put it down with no out-of-pocket expense!) Well, even though the book didn't present any new or revolutionary concepts, it presented in a very understandable fashion the tenets for successful personal investing: defining your own investment philosophy (what is important to you when you invest), making a comprehensive investment plan for yourself, the many virtues of asset allocation, etc. The book emphasizes that the personal investor needs to take the long-term view of investing and establish a good process to invest successfully. Although the book isn't as long on specific advice as many others, it is a good, thoughtful and readable presentation of the some extremely important aspects of personal investing.

Nishan says

One of the best books on investing, I ever read.

John Canque says

Great book for those in the financial services industry. It is meant for clients, but it can be best used as a guide for one's practice. I had a lot of highlights and will re-read again in the next year.

Simon Smith says

If you know anything about investing, just read the conclusion, or simply invest in a balanced mix of stock and bond index funds. It is common sense. It doesn't need a book.

Jodie says

Good for the beginner

This is a very good book for the beginner investor. There is a ton of very sound advice in this book and shows a very simple path to building wealth using modern funds.

JG says

Before dreaming with spectacular returns and little or no risk and volatility, first we should ask ourselves how can we at least get average returns that meet our needs and expectations. Provided that expectations are based on reality.

This great book is about Simplicity and Common Sense in our investments in order to obtain returns that most investors don't get, but they dream of. But this common sense unlike others, is based in data and empirical studies. so he is not talking about narratives or intuition, he is talking facts and all the while destroying some popular myths.

Ben Carlson talks about what you really need to know and understand to start investing with the right foot like the importance of the investment horizon when we are building our portfolio, asset allocation, risk tolerance, our need for short term liquidity, rebalancing, factor investing, value investing, financial advisors, long term, etc.

It is definitely a good reference for anyone interested in investing with simplicity and for the long term. It is not a recipe to the riches, it's a map to avoid common, simple and sometimes unknown errors that cost money and time. But it is also a guide to asking the right questions and having a good approach to investing.

Kris Venne says

I have been a big reader of Ben's blog for a while: A Wealth of Common Sense , and my high expectations were met with his first book. This is without question the first place professionals and retail investors alike should go for a simple and clean understanding of how simple investing could and should be.

Achtung Englander says

This is probably one of the best non-fiction books I have read. Ben Carlson uses psychology and good old fashioned facts that simple, but effective thinking, is how to build investments and pension plans. Similar to another excellent book, The Millionaire Teacher, Carlson takes it to another level by expanding on investment plans above index funds "good", mutual funds "bad". Breaking the chapters in defining risk, busting myths about crashes and bear markets, negative thinking, defining investment philosophy, asset allocation and so on, his chapters are very readable, he seldom repeats himself and everything he has to say has a valid and insightful point.

I found this book to be a fascinating read and a bible on how to stay calm when others are losing their heads.

If only books of this calibre were taught in schools and universities, it would save future generations from making misguided decisions on money and how to build wealth.

A+

Eric says

Not a lot new here...

Luis says

Excellent book, very well structured and easy to follow, specially for those people -like me- that are looking for simple ways to approach the market in order to create wealth.

Paige says

Pretty basic information, good refresher if you're feeling stuck or in a rut financially, but nothing really blew my mind.

Thomas says

If you are fan of Benjamin Graham, but want to avoid financial jargon, this book is a good balance. I read this book to attempt to find a good book to give my students to prepare for their financial future. This is a book for people who likely already invest in “target date” funds that want to take the next step into simple index allocations. It will help you understand the myths of the market and rules to base your decisions on.

Summary: you pick a sensible allocation and stick to it over a long time horizon. Then, when you want to retire, reevaluate your allocation.

Wes Cobb says

This book is proof that just because you can write a blog doesn't mean you can write a book. While Carlson's advice is as solid as ever, the book itself badly lacks structure and is poorly edited, with multiple typos and misused expressions. My recommendation: if you want a deep dive into Carlson's investment advice (which, I should emphasize, is excellent), spend your time reading his blog posts. The shorter medium seems to suit him better.

InvestingByTheBooks.com says

Financial markets are immensely complex. They are not rocket science, they are much more complex than that since they incorporate feedback loops of people's ever changing and often irrational emotions. It's easy to think that to succeed in such an environment the strategy to use must be equally complex. Nothing could

be more wrong. Complexity is best handled by the simplicity of a few rules. Ben Carlson who is a portfolio manager at Ritholtz Wealth Management and a successful financial blogger on asset allocation expands on the theme in this book. The target audiences are private investors and financial planners but there are insights for everyone.

A Wealth of Common Sense truly provides a wealth of important thoughts on investing and the author urges us all to have a plan for how to invest. “Without a plan volatility and uncertainty will eat you alive”. In creating a plan it’s important to realize that you have to take risk and endure pain to earn good long-term returns. In fact, the largest risk might be to not take enough risk to allow compounding effects over time – the author is clearly biased towards the stock market. At the same time there should be diversification since markets cannot be timed and most investors cannot endure the full effects of the crashes that come now and then. Diversification is an emotional hedge and allows rebalancing into cheaper assets.

A plan should be part of a system to automate productive behavior and long-term common sense. The plan should build on an investor’s beliefs about the market, the investor must be able to understand it and its risks, it must suit the personality of the investor because if it doesn’t it isn’t practically feasible. If the plan isn’t psychologically endurable in bad times it will be abandoned and it doesn’t matter how good the plan was on paper, it will now instead be destroying significant value. As the author puts it “true risk is what is irreversible” - an abandoned strategy risks locking in losses at the absolute worst possible time. While it might not be possible to time market crashes the investment plan should prepare for how any situation should be handled. Most will not be level headed without setting out a course of action prior to the chaos.

The subtitle to the book is Why Simplicity Trumps Complexity in Any Investment Plan. Given this the topic of simplicity vs. complexity in my view receives relatively little attention. Carlson rightly points to the huge incentives for complexity. Those who sell financial products can charge much higher fees for complex financial constructions than for simple ones. The buyers in turn feel smart and sophisticated when buying them, paying the fees. A quote from Nassim Taleb gets to illustrate the problem “The simpler, the better. Complications lead to multiplicative chains of unanticipated effects.” When investing in complex financial constructions the investor will be trading volatility risks that will be passing, for a type of financial market functionality risk that unfortunately introduces a probability of making losses permanent.

The author’s insights aren’t really new and he has obvious intellectual mentors in for example John Bogle, Peter Bernstein and Charlie Ellis, but this doesn’t make the thoughts less important and Carlson has a knack for catchy wordings that bring forward the theoretical and practical wisdom he has accumulated in a very effective way. For all the important insights I’d be glad to give the highest grade but in my meaning the book lacks direction. Some additional structure would have been needed for the reader to clearly see where the author is leading him.

The peddlers of complexity who live of the high fees they generate will claim that simple solutions like rebalancing to a 60/40 allocation or “buy and hold” strategies with regards to equity index portfolios have failed. This is simply not true, they have faired very well over time.
