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## Advice for Investors

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Most individuals save and invest for the long term, either to cope with contingencies, or to achieve financial freedom particularly in retirement. Such individuals should follow an investment approach that I describe as a cost-cutting, passive-plus and contrarian approach.

Cost-cutting means that investors should be fanatical about minimizing not just their tax liability but also investment management charges, loads, fees, and dealing costs. The professional investment industry remunerates the vast majority of its employees not for their superior investment skills but for their sales skills. They do not generate high enough returns net of charges and fees, so investors should eschew funds and platforms that charge excessively. Structured products, with complex guarantees, are usually expensive and should generally be avoided.

In fact, index-tracker funds and physical-security exchange-traded funds should form the bulk of an investor's portfolio. Not only are they cheap, but they form the core of the 'passive-plus' approach. We know that markets are not fully efficient in the sense that they do not price assets correctly, that they gyrate irrationally because of greed and fear, and that bubbles and crashes will happen. They are efficient, however, in the sense that it is difficult to beat markets regularly and consistently, and after paying investment charges and fees. Too many investors think that they can time markets, but get emotionally caught up in the latest fad, and end up buying too late, after investments have already gone up. They are disappointed when these investments then fall, whereupon they sell, again at the wrong time. Investing in index funds and ETFs enable them to ride the market and benefit both from diversification and from the judgement of professional investors and analysts.

A purely passive stock market-oriented approach is likely to be disappointing. Index funds may be dominated by large-cap firms and by certain sectors, and they increase their weighting when these shares go up. First, investors should diversify into other asset classes, including bond funds and commercial property investment trusts. They should also invest internationally. Secondly, they can and should hold individual shares, in companies and sectors which they have researched or followed for several years, and in areas where they may have professional expertise, as engineers or scientists or IT specialists. Warren Buffett's advice to buy only what you understand is wise. Investors should avoid companies that have opaque structures, unfocussed business plans, and excessive debt. They should choose companies which have a unique character or commercial advantage, and whose performance will be uncorrelated with the rest of the market.

The key advice for long-term investors is to be contrarian. Markets, sectors within these markets, and individual companies all experience cycles. Anticipating these cycles--market timing--is difficult, but one can act after these cycles have turned. If you are young and middle-aged, you are a net investor and should rejoice when prices fall because this is the time to buy. Ignore the noise, do not trade frequently, and periodically rebalance your portfolio to maintain a desired asset allocation. If your portfolio does better than expected, it may even be better to slow down or add no new cash to your portfolio. Keep your powder dry and build up your cash savings in a cash ISA or in premium bonds. You may even want to spend and travel the world, or learn new skills, both being very educational experiences for investors. But be ready to invest when irrational exuberance dies down, and value and sense come back to the market.