Principle 10: Stay the Course

[Applause]

Jim Dahle: All right, I'm going to do my best to channel some Jack Bogle here. We're going to talk about staying the course. I miss Jack. I tried to go to my first, or went to my first Bogleheads meeting--I think it was 2008. So I wanted to meet Jack and those who were there. No, he was in the hospital. He's in the hospital with some heart problems and he wasn't able to make it. But he called in from the hospital by video. So he did speak to us at that conference.

But I had to come back to a later conference to actually meet Jack. And I wish you all were able to sit here and have Jack teach you this principle. So I'm going to try to do the best I can in his place.

Let's start with his words. Though in fact we're mostly going to use his words for this section because stay the course seems so easy that you all just want to tune out and not even think about it. Of course, the last principle, stay the course. But you know what, it's the hardest one to do. All the other ones are easy compared to this.

So this is what Jack said, he said, “Stay the course. No matter what happens stick to your program. I've said stay the course a thousand times and I meant it every time. It is the most important single piece of investment wisdom I can give to you.”

And he has said it so many times that he says it in a whole bunch of different ways. He says “press on regardless”, says “don't do something, just stand there.” So what does “stay the course” really mean.

I think there's about five things that it means. So let's talk about them each individually. Here's the first one. Don't change your plan based on how you feel. Now these quotes you see here, these are all from Jack Bogle. He said investors should keep their emotions the heck out of the way. Investor emotions plus fund industry promotions equals trouble. The greatest enemies to the investor are expenses and emotions and time is your friend. Impulse is your enemy.

We all feel like the market's going to go down or the market's going to go up. I would challenge you to actually keep track of those feelings and those predictions. You have get yourself a little two dollar journal that you buy at the grocery store and start writing down these predictions of yours. It is a very enlightening exercise to do this over the course of a year or two or three. And you will be surprised by the end how poor you are at predicting the future and how wrong your feelings are, quite often.

One of my favorite books-- I can't remember the name of it which is really sad--but it's written by an attorney who lived through the Great Depression--and he put an entry in this diary every two or three months throughout the 1930’s talking about the economics of the era. And it's fascinating to read in real time the history that you now know, but what it was like to live through it.

And that can be what your Journal is. It can help you to live through your feelings about the markets and your investments. But I can promise you this. If you actually keep track of them you'll quit paying any attention to them after a while because they are wrong, wrong, wrong.

All right, the second thing staying the course means is don't chase performance. Jack said buying funds based purely on their past performance is one of the stupidest things that an investor can do. And there's a reason they have to put that in every mutual fund prospectus. It's because it's true. It's true, chasing performance is a terrible way to invest. You buy it right after it does great, right before it does poorly. So when you're staying the course you're not chasing performance.

It means don't keep looking for a better plan. Okay, Jack said the greatest enemy of a good plan is the dream of a perfect plan. Stick to the good plan. My wife and I drew up an investment plan in 2004. I think we made a couple of changes in 2005 or 2006. We made one other change in like 2016. And we followed that investment plan from being dead broke to being financially independent. Is it a perfect plan? No. It's a pretty good plan. It's not the best plan. If I'd had a crystal ball in 2005 the plan would look very different. But I did not have a crystal ball. We picked a good enough plan and we followed it and it worked. Amazingly you funded a reasonable plan adequately and you will reach your financial goals.

Okay stay the course means to be patient. Jack said rely on the ordinary virtues

that intelligent balanced human beings have relied on for centuries: common sense, thrift, realistic expectations, patience and perseverance. It's not that easy to stay with the same plan for 15 years, much less 60, right. Your investment career is probably about 60 years long, 30 years accumulating, 30 years distributing give or take-ish. That's a long time to be patient with a plan. But that's what it requires to be successful.

Okay, stay in the course means you don't sell out at market lows, right. Jack said if you have trouble imagining a 20% loss in the stock market you shouldn't be in stocks because they do that all the time if you sell just once late in your accumulation phase that can be a financial catastrophe that keeps you from ever reaching your financial goals. It is so important that you do not sell out at market lows. It might be the most important thing about investing.

Imagine an investor who sells out of their stocks at each of the following time periods, and then buys back after the recovery to the prior high. Okay, if you did that in March of 2003, right, stock's been going down for three years, right. All these tech stocks have gone to zero, it's never going to come back. They're flying planes into our buildings in New York City, right. You remember this if you lived through it.

Okay, if you sold out at that moment and didn't buy in until the market recovered you had a 46% permanent loss of capital. All the money you had invested in stocks, 46% of it is just subtracted from your nest egg and never comes back. March 2009, the global financial crisis, money market funds are breaking the buck, right. Everybody's panicking on the Bogleheads forum. Everyone's talking about Plan B. Everybody remember Plan B. You know as a physician Plan B means something very different but on the Bogleheads forum Plan B was the idea that you bailed out if it got bad enough. And I didn't really like Plan B. I wasn't a big fan, but I can tell you it was discussed extensively in 2008 and 2009 on the forum.If you had sold out your plan B in March of 2009 you were looking at a 52% permanent loss of capital.

Okay, who remembers 2011. Nobody remembers 2011. It technically wasn't a bear market, it was only like 19 or 19 and a half percent down. It wasn't 20% down. If you sold out there though 19% permanent loss of capital.

December 2018 is the other one. Everyone forgets about it was down 18 - 19%. Again, that month if you sold out, 18% permanent loss of capital. We all remember the start of the pandemic, right, because they shut down the NBA and we had nothing else to do but look at our stock--34% permanent loss of capital just because you weren't patient enough to hold on for a few more months.

Okay, right now we're down what, I don't know 20 - 25%, something like that. You know, we don't know how bad it's going to get, but if this is the bottom, this month, and you sell out it's 25% permanent loss of capital.

Okay these are real situations that you’ve got to live through. You know you should ask yourself what do I have to expect as an investor who's going to be investing for 30 years as an accumulator and for 30 years as a decumulator. Okay, well corrections, aka 10% drop,occur on average every 19 months, if you go back and look at all the data we have so far. Bear markets, which is a 20 plus percent drop occur on average every 3.6 years.

So with some simple division, I don't do algebra like Mike, with some simple division I can tell that I'm going to have to go through a bunch of these. Well I'm going to have to go through about 39 corrections as an investor. I'm going to have to go through about 17 bear markets as an investor. This is an expected event, right? It's an expected event to go through a bear market. It shouldn't be a surprise when it happens. You know it's going to happen every two or three or four or five years.

Your plan should address it. You should plan to stay the course with your plan throughout these events. That you plan for, on average, bear markets last 10 months. Okay, sometimes they're much shorter, right. That one with the pandemic who's back, right. It's the fastest bear market in recession I think we've seen in a long time. Although that one in October of 1987, that one is pretty quick too, right--huge one-day drop, biggest one day drop ever--still finished positive for the year in 1987, right. If you'd bailed out, permanent loss of capital.

It's interesting if you look at the markets, the history of the markets, and you should be a student of the markets. Stocks that provided a positive return in 78% of years, that includes many of those years when there was a correction and when there was a bear market. I think it was Alan's slide earlier that he showed, of all those

maximum drawdowns that you had during a year with a positive return, happens all the time.

Okay, so here we are. Jack Bogle's advice, stay the course it is the most important single piece of investment wisdom that I can give to you.