MONEY
FOR THE
REST OF US

10 Questions to Master Successful Investing

1 What is it?
We should seek to understand and explain in simple terms an investment's characteristics. The act of explaining keeps us humble and helps us realize what we don't know.

2 Is it investing, speculating, or gambling?
Classifying financial opportunities by whether they have a greater likelihood to be profitable, to be unprofitable, or to have an outcome that is highly uncertain simplifies the investing universe. Our research time is reduced when we focus most of our efforts on financial opportunities that have a positive expected return.

3 What is the upside?
We can use rules of thumb to estimate an investment's expected return. This allows us to compare different opportunities and make sure our assumptions are reasonable.

4 What is the downside?
The downside of an investment consists of its maximum potential loss and the personal financial harm caused by that loss. When evaluating an investment's downside, the goal is to avoid irreparable financial harm rather than to avoid any loss at all.

5 Who is on the other side of the trade?
Knowing who is selling us an investment helps us avoid financial instruments where success is dependent on knowing the future and/or outsmarting other investors.

6 What is the investment vehicle?
An investment vehicle is an instrument, product, or container that houses a particular investment strategy. Before investing, we should be able explain an investment vehicle's attributes including the expected return, the risk in terms of the potential maximum drawdown, liquidity, fees, structure, and pricing.

7 What does it take to be successful?
All investments have return drivers, such as income, cash flow growth, leverage, and other attributes that determine their performance. Successful portfolios have a diversified mix of dependable return drivers that we have identified beforehand.

8 Who is getting a cut?
Successful investors are aware of the entities taking a portion of the return in the form of fees, expenses, and taxes. We should make sure we receive sufficient benefits for any fees we pay.

9 How does it impact your portfolio?
We shouldn't approach asset allocation as an optimization problem with a single right answer. Rather, we have the creative freedom to build diversified investment portfolios with a variety of return drivers that align with our knowledge, interests, and values.

10 Should you invest?
Once we have identified an attractive investment opportunity, we have to decide when and how much to invest. How much to invest is a function of our confidence that an investment will be successful, the reliability of the return drivers for that success, and the personal financial harm caused if the investment falls short of our expectations. When to invest is a function of how much money we are seeking to put to work and current market conditions.