

## Prologue

Hello there, I'm glad you decided to give this book a read. I hope you'll find it welcoming, understandable, and above all, *useful*. If you're excited and eager to start learning about do-it-yourself investing, then I might suggest you skip the rest of this and go straight to the table of contents. If you need to summon up your courage a bit more, keep reading.

Investing can be a scary thing. There are entire TV stations dedicated to the topic, yet for many it's completely unfamiliar. It can be technical with its own language, and requires a long-term perspective unlike the rest of everyday life. It also looks suspiciously like math in places. But it doesn't have to be scary and technical; you can be quite successful at investing while letting it *stay* largely unfamiliar. You can set up a simple, easy-to-follow plan in just a few hours, and then get on with the rest of your life – and walking you through that is exactly what this book is about. Taking the first step and making the decision to invest on your own is likely going to be the hardest part. That's why I started this book with this friendly little page: the casual tone should be a clear sign that you won't be overwhelmed by technical details here.

There's no one right answer when it comes to managing your money, just as there's no one right answer for the other aspects of how you live your life. However, research shows that when faced with too many options, some people may become paralyzed by the choice and rather than pick *something* that's at least *good enough* and move on, they will instead dither and end up with nothing. So in many places I'm going to limit the number of options I present by using my judgement to narrow things down to the few that I think are most likely to help

John Robertson

you, recognizing the value of simple; anything that adds complexity has to be *worth* that extra effort.

Investing really can be easy, and I mean *actually* easy, not like dieting where they *say* it's easy – “just eat less” – but hard to actually pull off in practice.

There is inevitably *some* math involved with money, but you don't need anything more complex than what you learned in grade school, and even then we'll get spreadsheet programs to do the hard work for us.

You can do this. And just in case, I'm going to borrow from Douglas Adams here and put a big, friendly message on the next page. Turn back to read it again whenever you need to.

# Don't Panic

# On Exponential Growth, Bunnies, and the Future

## Introduction

Choosing to keep things as simple as possible will help maximize your chances of success. Complexity leads to indecision, an increased chance of making mistakes, and a loss of confidence. There is value in *simple*. This is as true for investing as it is for any other aspect of your life.

Learning any complex physical skill is difficult at first, with lots of conscious thought required to make anything happen, and you will make lots of errors. But it gets easier and more accurate with practice, because as you work at it processes in your cerebellum and spinal cord take over many of the individual muscle controls – you build "muscle memory." These processes and automation are an important evolutionary feature for managing complexity – the skills and movements of your body are just as complex, but the processing burden on your brain is reduced by breaking the movement down into simple, automatic components.

In investing, we do not have the luxury of taking multiple attempts at it and suffering repeated failures to build internal skill. Fortunately, we can use processes to help automate some parts of investing, and incorporate the lessons learned by the past. Much of the complexity

can be ignored in favour of focusing on just the few factors that truly matter and can be controlled.

Good *processes* are critical. Investing is something you will be doing for the rest of your life, but it shouldn't *become* your life. Once set up, your processes will help you stay on track without a lot of ongoing effort.

Your car has thousands of moving parts, yet you get where you want to go by focusing on just three simple controls. Many of the parts and fluids wear out and need to be maintained or replaced before they fail. Each has its own individual expected lifetime, but the engineers have simplified maintenance procedures into just a handful of options on a menu at regular mileage intervals that are good enough for most cars in the fleet. Complexity can be effectively managed by non-experts with the right tools and processes – and to extend the metaphor, with the occasional expert check-up.

There are lots of books on finance and investing in the world, and I won't pretend that they don't exist. However, they do miss one important aspect: *how* are you supposed to take the information they give and actually start investing? It is the question I've been asked time and again after people read other leading investing books yet still aren't clear on how to take the general, somewhat academic information they contain and move on to implementing a financial plan. The reason I sat down to write this book was to fill in those gaps in implementation and walk you through the process of investing.

It was important to keep the book short: ideally you should be able to plow through it, devise, and then implement your financial plan while you're still on a kick to do it and while all the information is fresh in your head. Short is also important because a major barrier that prevents people from getting started in investing is a lack of time. The passive (or “index”) investing approach I will

lay out requires minimal effort to maintain: likely just a few hours per year.

However, those very benefits mean that you're likely to forget many of the finer details between your yearly check-ups. The processes and lessons in this book are designed so that you won't need refreshers at all because it will just simply *work*. Though just in case, you should place the book in a hallowed and handy spot on your bookshelf for the quick refreshers to come.

When you develop your process you have to keep in mind that your future self may be years or decades removed from having done all the reading and research you're doing right now. This book will help you set things up to be easy-to-manage, with explicit instructions to your future self. On top of that, I encourage you to take notes on what you decide to do as well as *why* you decided it; how you came to a decision may help you decide if you need to revise it later.

This book was built and refined over the course of years, working side-by-side with novice investors to identify common barriers, and what was needed to help give them the confidence to invest on their own. Investing and finance have their own technical jargon, and that language barrier is one that processes alone won't shatter. I am trained as a scientist – my PhD is in Medical Biophysics – and in my career I have focused on scientific communications: how to effectively communicate highly technical information to people without expertise in it. Explaining complex things so they seem simple is my particular speciality.

In the fine print at the beginning (along with the ISBN and copyright notice), I included a web address for the errata page<sup>1</sup>. Please do check it as the years go on: a lot

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<sup>1</sup> Here it is again: <http://www.valueofsimple.ca>

can change in a short amount of time in the investing world. In the spring of 2014, as I was busy composing this book, the commission costs for small accounts were slashed at the brokerage arms of several of Canada's big banks and fund providers started a small price war on fund costs. More changes are sure to come, and I'll make note of them on that page as they do. All of the hyperlinks referenced in the book are also collected there for convenience.

I will note that this book is focused on investing and creating a financial plan for the long term. In the grand spectrum of personal finance this material is typically somewhere around step three; after getting out of debt and budgeting. How to create a household budget and spend less than you earn so that you have some savings to invest in the first place is important; knowing what you spend to live – even approximately – is going to be essential for long-term planning.

This book is broken down into three major parts:

- First, I will introduce the basic building blocks that you will use in building your financial plan and investment portfolio, things like what you can invest in, where you can put those investments, some basics on how taxes and tax shelters work, and what to think about when you create your long-term plan.
- Second will come the step-by-step practical section, which will walk you through how to use three specific investing options to open accounts, purchase investments, and also provide the tools and methods to track and maintain your portfolio.
- Third and last I will bring us around to revisit some of the more advanced issues and special situations, including some common (and unending) debates in personal finance.