A Wealth of Common Sense - A Review

[Editor’s Note: This is a guest post from John Lim. He is reviewing A Wealth of Common Sense by blogger Ben Carlson (not Carson.) I had a reader lend me this book for my Kindle and made it through the first three chapters before the loan ended. It was very good up until that point, but since I never finished it, it didn’t seem right to do a review of it. I have no financial relationship with John or Ben, but as usual, if you buy the book (or anything else) through links on this page, I get a few cents from Amazon.]

A Wealth of Common Sense, the recent book by Ben Carlson, was a true pleasure to read. More importantly, it overflows with financial wisdom and common sense. Voltaire once said, “Common sense is very rare.” He may as well have been speaking about how most people approach investing. In his book, Ben Carlson beautifully dissects the underpinnings for the following truism from Warren Buffett: “Intelligent investing is not complex, though that is far from saying it is easy.” But what I love about this book is that he not only explains the “what” about smart investing but also the “how.”

This is not to imply that this book is full of specific
investment advice. It is not. It is also certainly not a “get rich quick book”. But it is a book that is chock-full of actionable investment ideas. These include both what to do in order to maximize long term returns, but more importantly, what not to do. Frankly, the latter is where the book really shines in my opinion. Carlson illustrates again and again that the worst enemy to the investor is likely himself. While there may not be that many new deep truths about investing, Ben Carlson writes with a clarity and dispassionate wisdom that was truly refreshing and enjoyable.

The carefully selected graphs and charts are another of the book’s great strengths. They are laden with very useful historical perspective. But, my favorite chapter of the book was “Market Myths and Market History”. Here Carlson dispels some of the most common myths that have riled and misled investors (including myself) for ages. The chapter begins, “Meet Bob. Bob is the world’s worst market timer.” Bob’s (fictional) story is both hilarious and sad. It is Ben Carlson at his best. Bob lays bare some of our deepest psychological shortcomings as investors. But despite being the world’s worst market timer, Bob has two redeeming virtues that allow him to still retire comfortably by the age of 65.

An example of how the book is extremely practical without giving specific investment advice is this: Carlson cites a study that looked at investment returns from 1965 to 1995
under various scenarios. Scenario A was investing your money annually in the stock market at the market high of every year. Scenario B was investing the same amount of money annually on the first day of the year. The annualized returns must have been much worse for Scenario A right? Actually, the difference in annualized returns was a mere 0.4 percent!! That’s right, 10.6 percent for Scenario A (buying at the yearly high) versus 11 percent for Scenario B (buying on first trading day of the year). For me, this insight alone was worth the price of the book. It was as if a heavy weight had been lifted from my shoulders. I would no longer lose any sleep over trying to time the markets.

Another area this book provides great insight is on the importance of having a comprehensive investment plan and how to come up with one. I think many of us who enjoy finance and have studied it, skip this step and go straight to picking investments. Maybe we picked an asset allocation at some point in our lives, but how much thought did we really give it? For example, how do we react when value investing has been out of favor (as it has been lately)? Without a formal plan or policy in place, the temptation will be great to bail on your strategy and embrace what has been working. An entire chapter is dedicated to this important step, including a list of questions to consider to generate your own Investment Policy Statement (IPS). But as Carlson stresses, “The best investment process is the one you are willing and able to stick with through any market cycle.” The behavioral component of any investment plan cannot be stressed enough. This is where theory and practice either collide disastrously or form a beautiful union. This book helps you achieve the latter.
In short, this book is a timeless gem. While some may be disappointed that individual securities or strategies are not discussed, this book will be just as relevant in ten or even twenty years from now as it is today. The truths discussed may be simple but they are far from simplistic.

For me, the unifying thread of the book is that what makes investing difficult is not picking stocks or funds or even an asset allocation. (Truth be told, an asset allocation could be chosen and filled with index funds in under an hour.) What complicates investing, in short, is the human component—that’s you and me. We make things too complicated. We try too hard, and we are often in a hurry. Perhaps most importantly, we lack self-understanding. Whether you are a novice or sophisticated investor, I think you will benefit tremendously from this book from Ben Carlson. It beautifully distills the few big investing truths that investors, young and old, so often forget.

Buy *A Wealth of Common Sense* today!

What do you think? Have you read the book? Did you like it? Why or why not? Comment below!