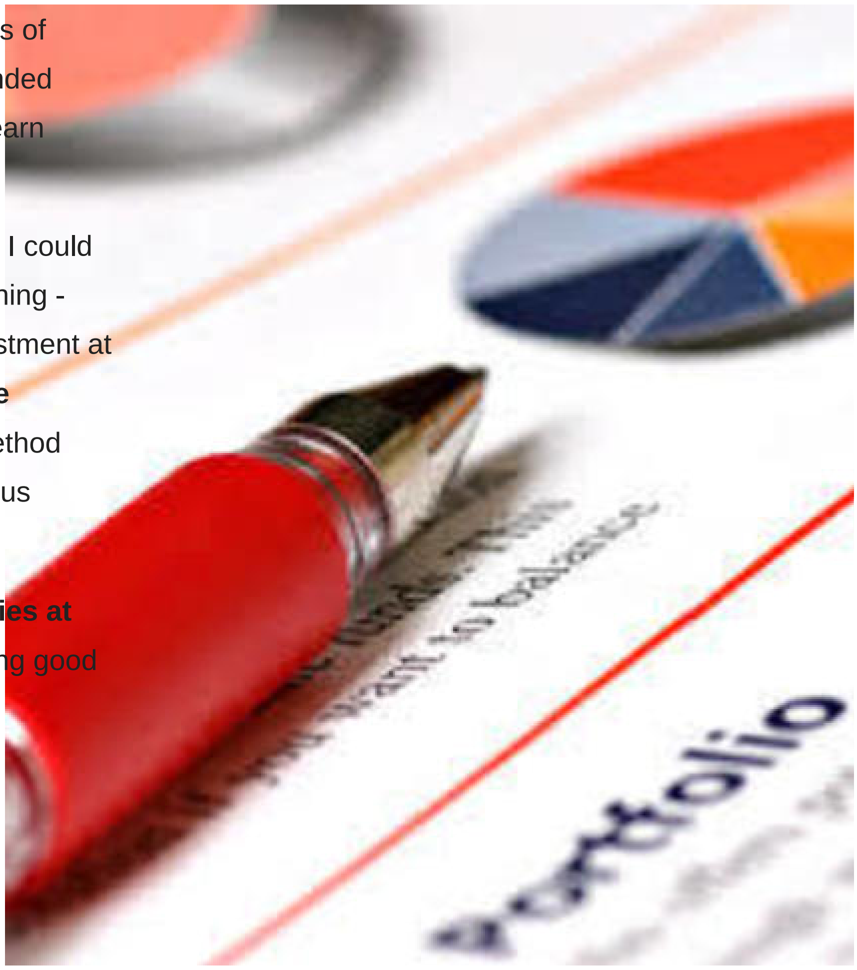
Investing In Index Funds

By Roger Keays, 31 January 2014



After calculating my returns on ten years of investing in more or less whatever sounded good I realized that I really needed to learn something about investing.

So I read and read and read everything I could find about investment (not really everything - there is a whole aisle dedicated to investment at the university library). The idea of **Value Investing** grabbed me most. It's the method made popular by the world's most famous investor, **Warren Buffett**.

The idea is simple. **Buy good companies at good prices**. So first I went about finding good companies. To me these are those with

- a simple business model
- relatively few staff
- high margins
- a track record of reducing expenses
- dominance in their niche
- high return on equity

I spent months going through the market meticulously reading annual reports and calculating fair prices for the companies that met my criteria. Then I bought shares in those whose prices gave me the biggest margin of safety.

Now, two years down the track I'm excited to bring you the results.

I was totally wrong.

After all those hours pouring over data and spreadsheets, the shares I had tagged to sell (eg Telstra, Wesfarmers) outperformed my new purchases (eg ASX, Westpac) more than significantly.

There goes my career as a professional investor.

But it made me appreciate **the difficulty of predicting the future**.

Now I've given up picking stocks and I don't believe fund managers can do it either, so I just buy index funds at whatever price they're at. Investing in an index fund is like investing in everything on the market.It's a way of saying "despite all its shortcomings, capitalism *does* work".

Take a look at the fees on these index funds vs some of the managed funds I've invested in before:

ETFs	**Entrance Fee**	**Annual Fees**	**Buy/Sell Spread**
Vanguard ASX300	0%	0.15%	na
Barclays iShares MSCI200	0%	0.19%	na
SDPR ASX200	0%	0.29%	na
Index Funds			
Vanguard Cash	0%	0.70%	0.0%
Vanguard Diversified Bonds	0%	0.75%	0.5%
Vanguard ASX300	0%	0.75%	0.3%
Vanguard FTSE High Yield	0%	0.90%	0.3%
CFS ASX200 Index		1.11%	
Managed Funds			
CFS Cash	0%	1.10%	
CFS Balanced	**3.0%**	1.81%	0.15%
CFS Diversified	**4.0%**	1.91%	0.20%
CFS Diversified Nil Entry	0%	2.15%	0.20%

The entrance fee is charged when you enter the fund and the buy/sell spreadis like a brokerage charge that is factored intoall your transactions.ETFs areExchange Traded Funds which you can enter and exit via the ASX as if you were trading company shares.

I still don't believe I paid nearly **5% + 2% per annum** to support some fund managers luxury lifestyle / gambling habit. Then there are the practical advantages of investing index funds vs conventional investing:

- distributions are more regular and predictablewhich helps me budget
- I don't waste time doing research of questionable value
- I can invest more regularly in smaller amounts
- I feel like I own a piece of Australia

Finally you may notice how dirty cheap the fees on the ETF funds are. The downside is you have to pay brokerage and possibly a buy spread caused by supply and demand which adds to the cost. *Wouldn't it be great if you there was a way to invest in an index fund at these rates but without the brokerage?*

Well there is!

But you'll have to wait for next time until I tell you about that.

About Roger Keays

Roger Keays is an artist, an engineer, and a student of life. He has no fixed addressand has leftfootprints on 40-something different countries around the world. Roger is addicted to surfing. His other interests are music, psychology, languages, the proper use of semicolons, and finding good food.