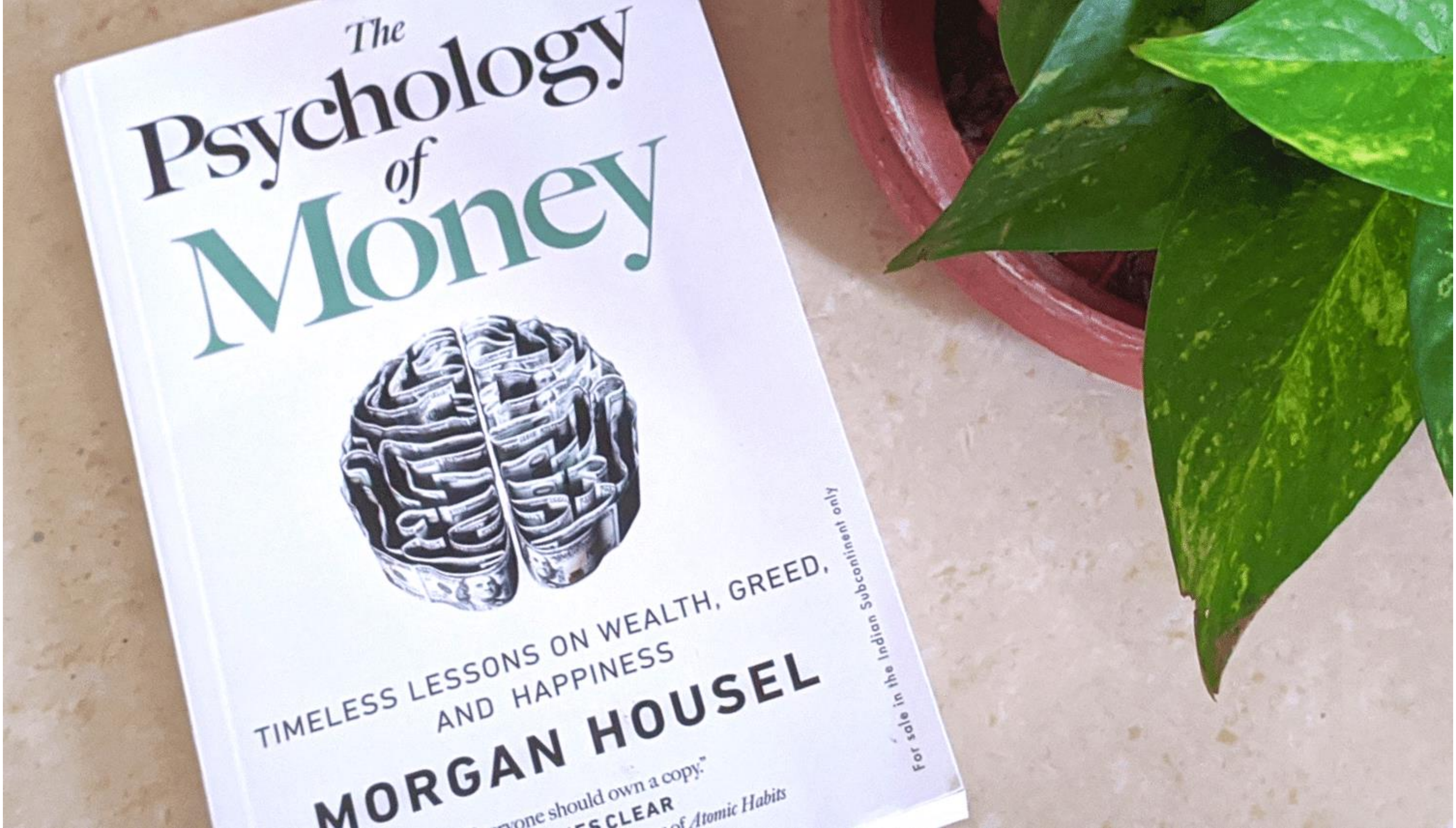
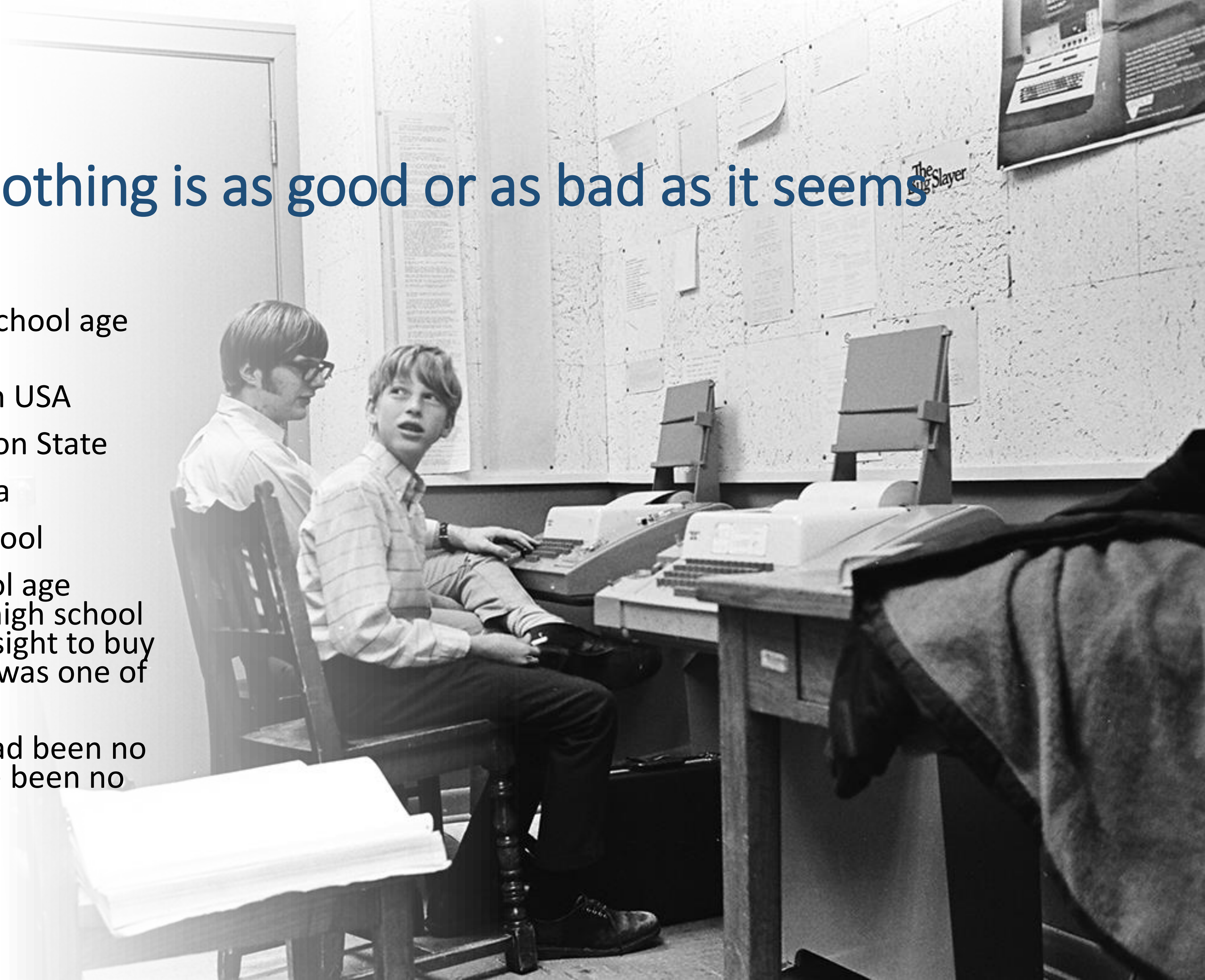

The Psychology of Money
TIMELESS LESSONS ON WEALTH, GREED, AND HAPPINESS
MORGAN HOUSEL
For sale in the Indian Subcontinent only

Luck and Risk : Nothing is as good or as bad as it seems

- Bill Gates went to one of the only high schools in the world that had a computer
- Bill Dougall, who was the high school math and science teacher, petitioned the Lakeside School Mother’s club for $3,000 to lease a Teletye Model 30 computer
- Most universities did not have access to such powerful computers which Bill Gates had

Luck and Risk : Nothing is as good or as bad as it seems



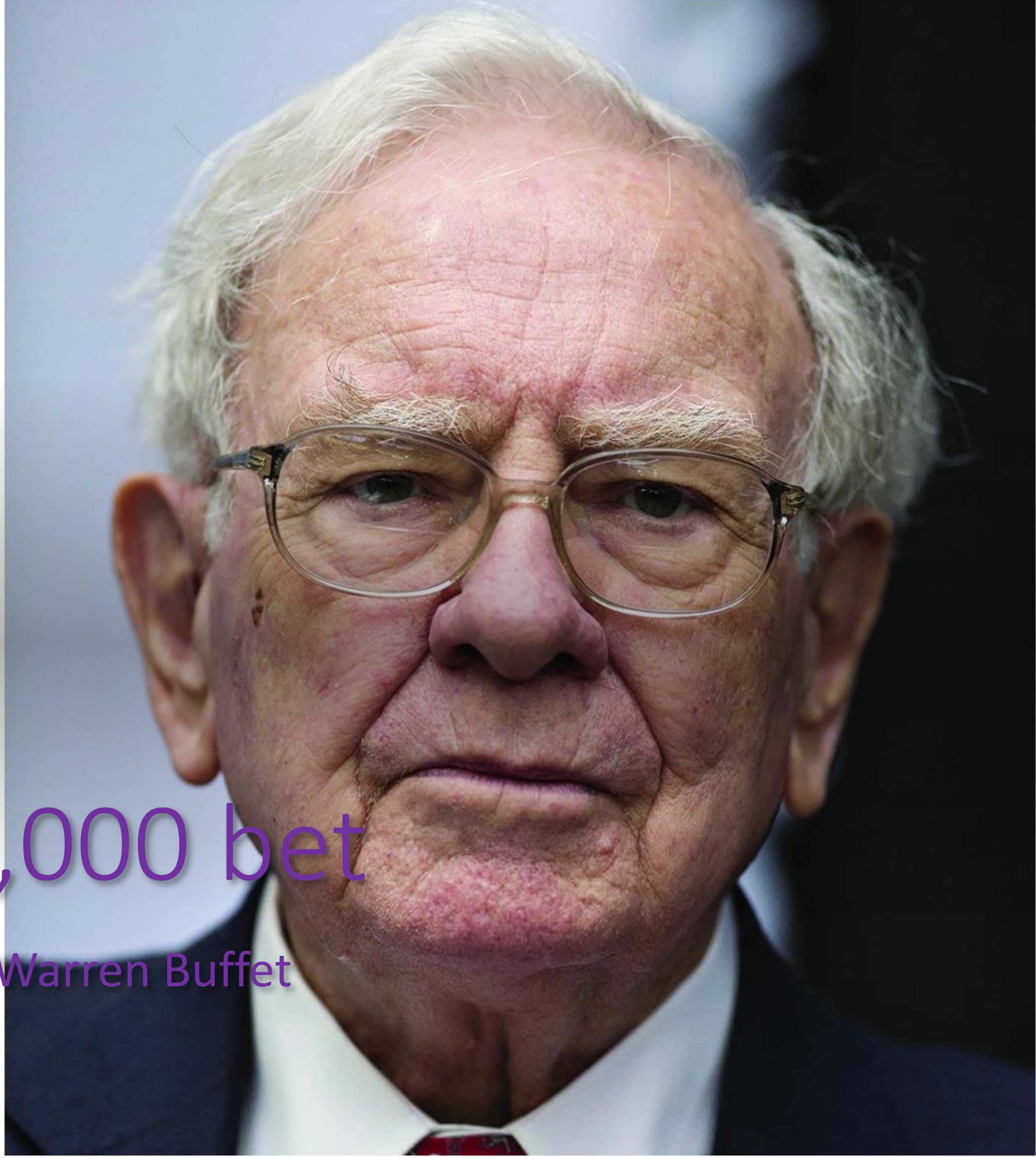
- In 1968, 303 million high school age kids were there
- 18 million of which were in USA
- 270,000 were in Washington State
- 100,00 were in Seattle area
- 300 attended Lakeside School
- One in a million high school age students who attended a high school that has the cash and foresight to buy a computer and Bill Gates was one of them
- Gates (2005) – “ If there had been no lakeside, there would have been no Microsoft”

The story of Kent Evans

- Kent Evans and Bills Gates were best friends in eighth grade
- Evans was as skilled with computers as Gates and Allen
- Gates – “ We would have kept working together and I am sure would have gone to college together”
- He would have been a founding partner in Microsoft

The story of Kent Evans

- Kent died in a mountaineering accident before graduation from high school
- Every year three dozen mountaineering deaths in US
- The odds of being killed in a mountaineering accident for high school kids was one in a million !
- Bill Gates and Kent Evans both experienced events which had one in a million chance – One was lucky the other …
- For every Bill Gates there is a Kent Evans who was just as skilled and driven, but ended up on the other side of life’s roulette
- Give luck and risk proper respect – Success is never as good or as bad as it looks



$ 1,000,000 bet

Ted Seides vs Warren Buffet

Million Dollar Bet

- “In Berkshire’s 2005 annual report, I argued that active investment management by professionals – in aggregate – would over a period of years underperform the returns achieved by rank amateurs who simply sat still.

- I explained that the massive fees levied by a variety of “helpers” would leave their clients – again in aggregate – worse off than if the amateurs simply invested in an unmanaged low-cost index fund.”

Million Dollar Bet

- Subsequently, I publicly offered to wager $500,000 that no investment pro could select a set of at least five hedge funds – wildly-popular and high-fee investing vehicles – that would over an extended period match the performance of an unmanaged S&P-500 index fund charging only token fees.

- I suggested a ten-year bet and named a low-cost Vanguard S&P fund as my contender. I then sat back and waited expectantly for a parade of fund managers – who could include their own fund as one of the five – to come forth and defend their occupation. After all, these managers urged others to bet billions on their abilities. Why should they fear putting a little of their own money on the line?

Million Dollar Bet

- Specifically, Buffett offered to bet that over a ten-year period from January 1, 2008, to December 31, 2017, the S&P 500 index would outperform a portfolio of funds of hedge funds when performance is measured on a basis net of fees, costs and all expenses.

- What followed was the sound of silence. Though there are thousands of professional investment managers who have amassed staggering fortunes by touting their stock-selecting prowess, only one man – Ted Seides – stepped up to my challenge. Ted was a co-manager of Protégé Partners, an asset manager that had raised money from limited partners to form a fund-of-funds – in other words, a fund that invests in multiple hedge funds.

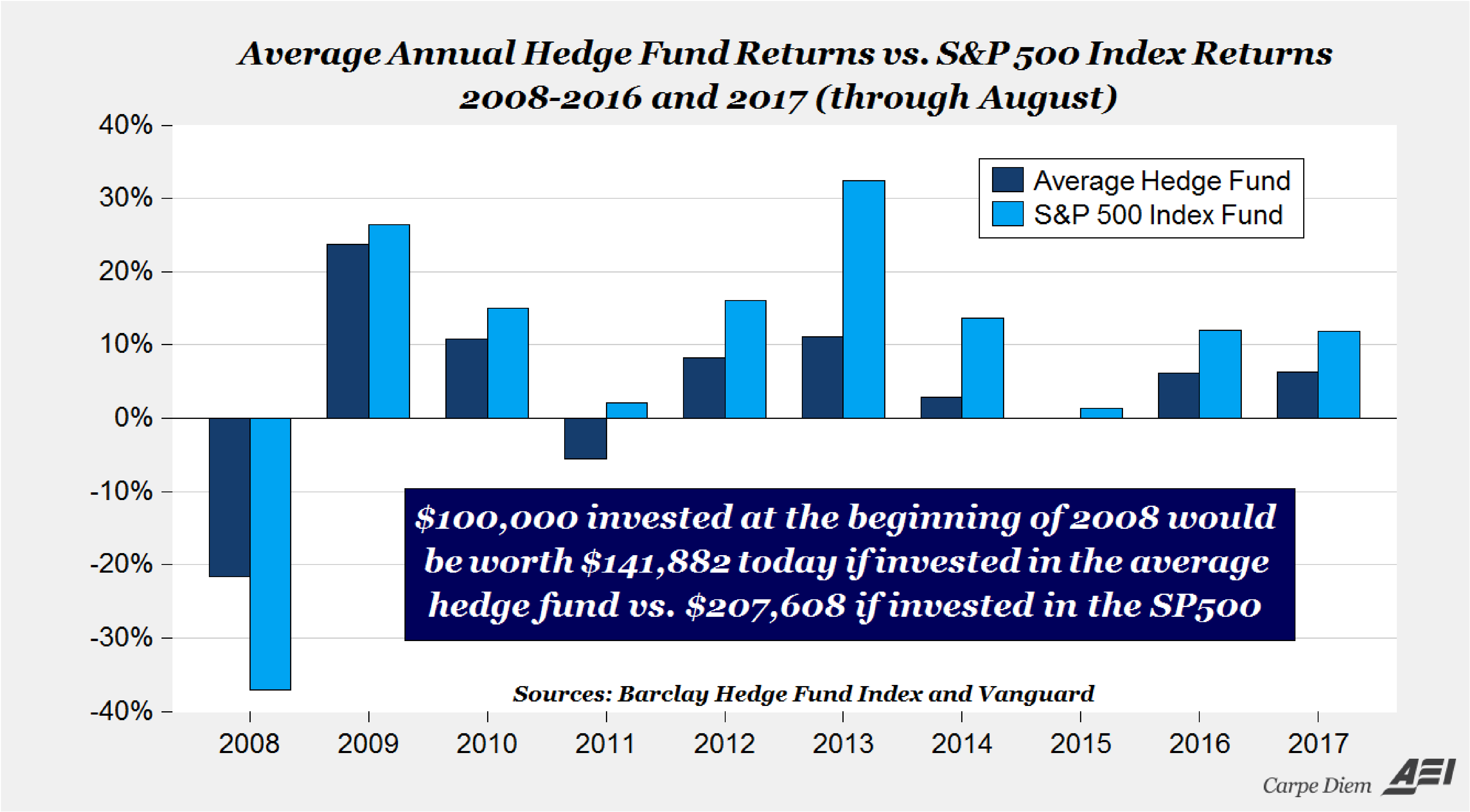
Million Dollar Bet

- Buffett's index investment bet is so far ahead that Seides concedes the match, although it doesn't officially end until Dec. 31.
- The problem for Seides is his five funds through the middle of this year have been only able to gain 2.2% a year since 2008, compared with more than 7% a year for the S&P 500 — a huge difference.
- That means Seides' $1 million hedge fund investments have only earned $220,000 [through 2016] in the same period that Buffett's low-fee investment gained $854,000.
- "For all intents and purposes, the game is over. I lost," Seides wrote. The $1 million will go to a Buffett charity, Girls Inc. of Omaha.

Million Dollar Bet

- The problem “Is running a hedge fund profitable? Yes. Hedge fund managers typically demand management fees of 2 percent of assets under management,” according to Capital Management Services Group (CMSG), which tracks the hedge fund industry. “Performance fees for managers can be 20 percent to 50 percent of trading profits,” CMSG adds.

- By contrast, the costs of an average index fund are minimal. A fund that tracks the S&P 500 fund might have an expense ratio of as little as 0.02%.


Average Annual Hedge Fund Returns vs. S&P 500 Index Returns
2008-2016 and 2017 (through August)
40%
30%
20%
10%
0%
-10%
-20%
-30%
-40%
Average Hedge Fund
S&P 500 Index Fund
$100,000 invested at the beginning of 2008 would be worth $141,882 today if invested in the average hedge fund vs. $207,608 if invested in the SP500
Sources: Barclay Hedge Fund Index and Vanguard
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
Carpe Diem
AEI

'A TERRIFIC READ'
Gregory Zuckerman, special writer at the *Wall Street Journal* and author of *The Man Who Solved the Market*

TRILLIONS

How a Band of Wall Street Renegades Invented the Index Fund and Changed Finance For Ever

ROBIN WIGGLESWORTH
Global Finance Correspondent at the *Financial Times*

'A fascinating journey and a crucial book'
Bradley Hope, author of *Billion Dollar Whale*