

“By demolishing so many wealth-destroying myths, Ken Fisher has performed a priceless service for investors at a time when they need all the help they can get.”

—STEVE FORBES, Chairman and Editor-in-Chief, Forbes Media

THE LITTLE BOOK OF




MARKET MYTHS

*How to Profit by Avoiding the
Investing Mistakes Everyone Else Makes*

SECOND EDITION

KEN FISHER

New York Times bestselling author

THE LITTLE BOOK

OF
MARKET MYTHS

*How to Profit by Avoiding
the Investing Mistakes Everyone
Else Makes*

Second Edition


Little Book Big Profits Series



In the Little Book series, the brightest icons in the financial world write on topics that range from tried-and-true investment strategies to tomorrow's new trends. Each book offers a unique perspective on investing, allowing the reader to pick and choose from the very best in investment advice today.

Books in the Little Book series include:

- The Little Book of Investing Like the Pros* by Pearl and Rosenbaum
- The Little Book That Still Beats the Market* by Joel Greenblatt
- The Little Book That Saves Your Assets* by David M. Darst
- The Little Book That Builds Wealth* by Pat Dorsey
- The Little Book That Makes You Rich* by Louis Navellier
- The Little Book of Common Sense Investing* by John C. Bogle
- The Little Book of Value Investing* by Christopher Browne
- The Little Book of Big Dividends* by Charles B. Carlson
- The Little Book of Main Street Money* by Jonathan Clements
- The Little Book of Trading* by Michael W. Covel
- The Little Book of Valuation* by Aswath Damodaran
- The Little Book of Economics* by Greg Ip
- The Little Book of Sideways Markets* by Vitaliy N. Katsenelson
- The Little Book of Big Profits from Small Stocks* by Hilary Kramer
- The Little Book of Currency Trading* by Kathy Lien
- The Little Book of Bull's Eye Investing* by John Mauldin
- The Little Book of Emerging Markets* by Mark Mobius
- The Little Book of Behavioral Investing* by James Montier
- The Little Book of Hedge Funds* by Anthony Scaramucci
- The Little Book of Bull Moves* by Peter D. Schiff
- The Little Book of Alternative Investments* by Stein and DeMuth
- The Little Book of Bulletproof Investing* by Ben Stein and Phil DeMuth
- The Little Book of Commodity Investing* by John R. Stephenson
- The Little Book of the Shrinking Dollar* by Addison Wiggin
- The Little Book of Stock Market Profits* by Mitch Zacks
- The Little Book of Safe Money* by Jason Zweig
- The Little Book of Zen Money* by The Seven Dollar Millionaire
- The Little Book of Picking Top Stocks* by Martin S. Fridson
- The Little Book of Robo Investing* by Elizabeth MacBride and Quian Liu
- The Little Book of Trading Options Like the Pros* by David Berns and Michael Green
- The Little Book of Impact Investing* by Priya Parrish

THE LITTLE BOOK

OF
MARKET MYTHS

*How to Profit by Avoiding
the Investing Mistakes Everyone
Else Makes*

Second Edition

KEN FISHER
LARA W. HOFFMANS
CHRIS CIARMIELLO

WILEY

Copyright © 2025 by Fisher Investments. All rights reserved.

Published by John Wiley & Sons, Inc., Hoboken, New Jersey.

Published simultaneously in Canada.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning, or otherwise, except as permitted under Section 107 or 108 of the 1976 United States Copyright Act, without either the prior written permission of the Publisher, or authorization through payment of the appropriate per-copy fee to the Copyright Clearance Center, Inc., 222 Rosewood Drive, Danvers, MA 01923, (978) 750-8400, fax (978) 750-4470, or on the web at www.copyright.com. Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030, (201) 748-6011, fax (201) 748-6008, or online at <http://www.wiley.com/go/permission>.

Trademarks: Wiley and the Wiley logo are trademarks or registered trademarks of John Wiley & Sons, Inc. and/or its affiliates in the United States and other countries and may not be used without written permission. All other trademarks are the property of their respective owners. John Wiley & Sons, Inc. is not associated with any product or vendor mentioned in this book.

Limit of Liability/Disclaimer of Warranty: While the publisher and author have used their best efforts in preparing this book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by sales representatives or written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. Further, readers should be aware that websites listed in this work may have changed or disappeared between when this work was written and when it is read. Neither the publisher nor authors shall be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential, or other damages.

For general information on our other products and services or for technical support, please contact our Customer Care Department within the United States at (800) 762-2974, outside the United States at (317) 572-3993 or fax (317) 572-4002.

Wiley also publishes its books in a variety of electronic formats. Some content that appears in print may not be available in electronic formats. For more information about Wiley products, visit our website at www.wiley.com.

Library of Congress Cataloging-in-Publication Data is Available

ISBN 9781394283194 (Cloth)

ISBN 9781394283170 (ePDF)

ISBN 9781394283187 (ePub)

COVER DESIGN: PAUL MCCARTHY

Contents

Preface	ix
Chapter One	
Bonds Are Safer Than Stocks	1
Chapter Two	
Asset Allocation Shortcuts	17
Chapter Three	
Volatility and Only Volatility	27
Chapter Four	
More Volatile Than Ever	37

Chapter Five The Holy Grail – Capital Preservation and Growth	49
Chapter Six The GDP – Stock Mismatch Crash	55
Chapter Seven 10% Forever!	65
Chapter Eight High Dividends for Sure Income	73
Chapter Nine The Perma-Superiority of Small-Cap Value	81
Chapter Ten Wait Until You’re Sure	91
Chapter Eleven Stop-Losses Stop Losses	103
Chapter Twelve High Unemployment Kills Stocks	109

Chapter Thirteen	
Over-Indebted America	127
Chapter Fourteen	
Strong Dollar, Strong Stocks	145
Chapter Fifteen	
Turmoil Troubles Stocks	155
Chapter Sixteen	
News You Can Use	169
Chapter Seventeen	
Too Good to Be True	179
Notes	191
Acknowledgements	199
About the Authors	201

Preface



QUESTIONING YOURSELF IS HARD.

One of the hardest things we do (or rather, don't do). Folks don't like questioning themselves. If we question, we might discover we're wrong, causing humiliation and pain. Humans evolved over many millennia to take any number of extraordinary and often irrational steps to avoid even the risk of humiliation and pain.

Those instincts likely helped our long-distant ancestors avoid being mauled by wild beasts and starving through long winters. But these deeply imprinted instincts often are exactly wrong when it comes to more modern problems like frequently counterintuitive capital markets.

I often say investing success is two-thirds avoiding mistakes, one-third doing something right. If you can just

avoid mistakes, you can lower your error rate. That alone should improve your results. If you can avoid mistakes and do something right on occasion, you will likely do better than most everyone. Better than most professionals!

Maybe you think avoiding mistakes is easy. Just don't make mistakes! Who sets out to make them, anyway? But investors don't make mistakes because they know they're mistakes. They make them because they think they're making smart decisions. Decisions they've made plenty of times and have seen other smart people make. They think they're the right decisions because they don't question.

After all, what sense does it make to question something that "everyone knows"? Or something that's common sense? Or something you learned from someone supposedly smarter than you?

Waste of time, right?

No! You should always question *everything* you think you know. Not once, but every time you make an investing decision. It's not hard. Well, functionally it's not hard, though emotionally and instinctually, it might be. What's the worst that can happen? You discover you were right all along, which is fun. No harm done. No humiliation!

Or . . . you discover you were wrong. And not just you, but the vast swaths of humanity who believe a false truth – just as you did! You've uncovered a mythology. And discovering something you previously thought to be true is actually

myth saves you from making a potentially costly mistake (or making it again). That's not humiliating, that's beautiful. And potentially profitable.

The good news is, once you start questioning, it gets easier. You may think it impossible to do. After all, if it were easy, wouldn't everyone do it? (Answer: No. Most people prefer the easy route of never questioning and never being humiliated.) But you can question anything and everything – and should. Start with those things you read in the paper or hear on TV and nod along with. If you're nodding, you've found a truth you've probably never investigated much, if at all.

Like the near-universal belief high unemployment is economically bad and a stock market killer. I know of no one who says the reverse – that high unemployment doesn't cause future economic doom. Yet, as I show in Chapter 12, unemployment is provably a late, lagging indicator and not indicative of future economic or market direction. And amazingly, recessions start when unemployment is at or near cyclical lows, not the reverse. The data prove that, and fundamentally it makes sense, once you start thinking how a CEO would (as I explain in the book). This is a myth I disprove using pretty easy-to-get data from public sources. Data that's universally available and easy to compile! But few question this myth, so it endures.

This book covers some of the most widely believed market and economic myths – ones that routinely cause

folks to see the world wrongly, leading to investing errors. Like America has “too much” debt, age should dictate asset allocation, high dividend stocks can produce reliable retirement income, stop-losses actually stop losses, and more. Many I’ve written about before in various books, but here I collect what I view as the most egregious myths and expand on them or use a different angle or updated data.

Then, too, I’ve written about many of these myths before simply because they are so widely and rigidly and wrongly believed. My guess is writing about them here again won’t convince many (or even most) the mythology is wrong. They’ll prefer the easy route and the mythology. And that’s ok. Because you may prefer the truth – which gives you an edge, a way to avoid making investment decisions based not on sound analysis and/or fundamental theory, but on a myth everyone believes just because.

Each chapter in the book is dedicated to one myth. Jump around! Read them all or just those that interest you. Either way, I hope the book helps you improve your investing results by helping you see the world a bit clearer. And I hope the examples included here inspire you to do some sleuthing on your own so you can uncover still more market mythology.

You’ll quickly see a few common characteristics throughout the chapters. A how-to manual to myth debunking, if

you will. The tactics I use over and over to debunk these myths include:

Just asking if something is true. The first, most basic step. If you can't do this, you can't move to later steps.

Being counterintuitive. If "everyone knows" something, ask if the reverse might be true.

Checking history. Maybe everyone says XYZ just happened, and that's bad. Or it would be so much better if ABC happened. Maybe that's true, maybe not. You can check history to see if XYZ reliably led to bad or ABC to good. Ample free historical data exist for you to do this!

Running some simple correlations. If everyone believes X causes Y, you can check if it always does, sometimes does, or never does.

Scaling. If some number seems impossibly scary and large, put it in proper context. It may bring that fear down to size.

Thinking globally. Folks often presume the US is an island. It's not – the US is heavily impacted by what happens outside its borders. And investors the world over tend to have similar fears, motivations, etc.

There are plenty of myths investors fall prey to – I couldn't possibly cover them all here. But if you can get in your bones the beauty and power of questioning, over time, you should be fooled less by harmful myth and get better long-term results. So here we go.

THE LITTLE BOOK

OF
MARKET MYTHS

*How to Profit by Avoiding
the Investing Mistakes Everyone
Else Makes*

Second Edition

Chapter One



Bonds Are Safer Than Stocks



*“Everyone knows bonds
are safer than stocks.”*

EVEN AFTER 2022’S BOND beatdown, that belief remains asset orthodoxy – a 100%, take-it-to-the-bank, of-course-the-sky-is-blue truism. After all, bonds still beat stocks in their atypically terrible 2022. Even investigating the idea stocks could be safer seems sacrilegious.

But beliefs so widely, broadly, universally held are often those that end up being utterly wrong – even backward.

So go ahead. Ask, “Are bonds safer?”

Initially, it may seem intuitive that typically plodding bonds are safer than stocks with their inherent wild wiggles. But I say, whether bonds are safer or not can depend on what you mean by “safe.”

There’s no technical definition – and huge room for interpretation. For example, one person might think “safe” means a low level of expected shorter-term volatility. No wiggles! Another person might think “safe” means an increased likelihood he achieves long-term goals, which may require a higher level of shorter-term volatility.

Bonds Are Volatile, Too

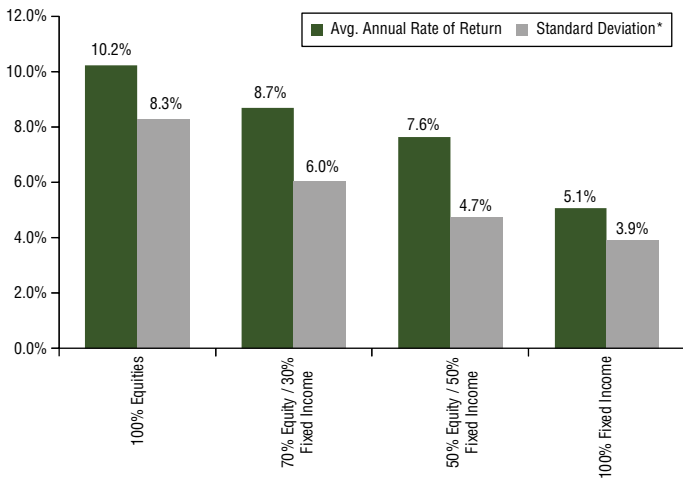
In 2022, many people learned the hard way that stocks aren’t the only asset with negative volatility – bonds wiggle, sometimes downward, as well! But that is nothing new. Bonds have *always* had price volatility. Their prices move in inverse relationship to interest rates. When interest rates rise, like in 2022, prices of currently issued bonds fall, and vice versa. So from year to year, as interest rates for varying categories of bonds move up and down, their prices move down and up. Some categories of bonds are more volatile than others – but in any given year, bonds can have negative returns – even benchmark US Treasuries, which plunged –17.0% in 2022.¹

But overall, as a broader category, bonds typically aren't as volatile as stocks – over shorter time periods.

That's an important caveat. Over shorter time periods like a year or even five, bonds are less volatile. They have lower expected returns, too. But if your exclusive goal is mitigating volatility, and you don't care about superior long-term returns, that may not bother you.

Exhibit 1.1 shows average annual returns and standard deviation (a common measure of volatility that shows the

Exhibit 1.1 Five-Year Time Horizon – Volatility



*Standard deviation represents the degree of fluctuations in historical returns. This risk measure is applied to five-year annualized rolling returns in the chart.

Source: Global Financial Data, Inc., as of 2/21/2024. US 10-Year Government Bond Index, S&P 500 Total Return Index, average rate of return for rolling five-year periods from 12/31/1925 – 12/31/2023.

difference from the average return) over five-year rolling periods. It's broken into a variety of allocations, including 100% stocks, 70% stocks/30% fixed income, 50%/50% and 100% fixed income.

Returns were superior for 100% stocks. And, not surprisingly, average standard deviation was higher for 100% stocks than for any allocation with fixed income – stocks were more volatile on average. The more fixed income in the allocation over rolling five-year periods, the lower the average standard deviation.

So far, I haven't said anything that surprises you.

Everyone knows stocks are more volatile than bonds.

Stocks Are Less Volatile Than Bonds?

But hang on – if you increase your observation period, something happens. Exhibit 1.2 shows the same thing as Exhibit 1.1, but over rolling 20-year periods. Standard deviation for 100% stocks fell materially and was near identical to standard deviation for 100% fixed income. Returns were still superior for stocks – but with similar historic volatility.

It gets more pronounced over 30-year time periods – shown in Exhibit 1.3. (If you think 30 years is an impossibly long investing time horizon, Chapter 2 is for you! Investors commonly assume a too-short time horizon – a 30-year time