

SCOTT BURNS

INVEST LIKE A COUCH POTATO



ACHIEVE FINANCIAL SECURITY AND
LIFETIME FREEDOM WITH EASE

PRAISE FOR *INVEST LIKE A COUCH POTATO*

Scott Burns has produced an engaging journey through the intricacies of investing for and during retirement. His advocacy of the Couch Potato investing style—using a small number of low-cost, well-diversified index funds—is a pragmatic and effective solution for any retiree. Savor this book’s clear writing style and pithy wisdom.

—**William P. Bengen**, Author of *A Richer Retirement: Supercharging the 4% Rule to Spend More and Enjoy More*

For a third of a century, Scott Burns’s Couch Potato Portfolio has provided his lucky readers with a smooth and effortless ride to easy street. If you missed it the first time around, or if you need a refresher, then you won’t do better than *Invest Like a Couch Potato*: read, enjoy, and prosper.

—**William J. Bernstein**, bestselling author of *The Investor’s Manifesto: Preparing for Prosperity, Armageddon, and Everything in Between*

Forget overwrought financial guidance. In *Invest Like a Couch Potato*, Scott Burns resists the urge to tell us everything he knows about investing (a lot!). Instead, he gives us something even more valuable: what we *need* to know about investing. I enjoyed every bit of this wise book.

—**Christine Benz**, Director of Personal Finance and Retirement Planning, Morningstar

Invest Like a Couch Potato packs enough wisdom, humility, clarity, and humor to be the best personal finance book of the decade!

—**Andrew Hallam**, international bestselling author of *Millionaire Teacher*, *Millionaire Expat*, and *Balance*

Scott Burns is America's deeply beloved financial therapist. He's spent decades protecting millions of us from two terrible dangers—our impulses and Wall Street's con jobs. *Invest Like a Couch Potato* is classic Burns—a brilliant, less-is-more, common-sense path to financial well-being and peace of mind. It's a must read—for you and everyone you love.

—**Laurence Kotlikoff**, Boston University professor of economics and *New York Times* bestselling personal finance author

A fun and essential guide to investments and, of even greater importance, life.

—**John Rekenthaler**

A remarkably clear and insightful guide to money—and to securing the freedom to live life on your own terms. A brilliantly crafted and genuinely enjoyable read.

—**Allan Roth**, financial planner, columnist, and author of *How a Second Grader Beat Wall Street*

With the insight of a seasoned columnist and the tone of a trusted friend, Scott Burns demonstrates how surprisingly little effort is required to invest well. His Couch Potato method has eased the worries of thousands, and it can help you feel more relaxed and confident about your future.

—**Dan Solin**, author of the Smartest series of investing books

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WILEY

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To Carolyn, my amazing, wonderful, and loving wife.

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INTRODUCTION: AN EASY STROLL TO INVESTMENT SUCCESS AND A BETTER LIFE

The more relaxed you are, the better you are at everything: the better you are with your loved ones, the better you are with your enemies, the better you are at your job, the better you are with yourself.

—Bill Murray

This book will guide you to a rich and fulfilling life.

It begins with facing a primary life task, saving and investing enough while we are working to sustain us during the many years we are not working.

It ends with demonstrations of how much you will benefit from absolute simplicity. The benefit is measured in financial wealth. It is also measured in the other kinds of wealth that you will gain, wealth that would otherwise be lost in our obsessive money culture.

More than 30 years ago I introduced readers of my syndicated personal finance column to Couch Potato investing. If you can fog a mirror and divide by the number 2 (if necessary, with the aid of a handheld calculator), you can manage your investments.

Seriously.

Simply invest in a low-cost index fund of domestic stocks and a low-cost index fund of domestic bonds and you can accumulate the financial wealth needed to fund a healthy retirement. Better still, you will probably enjoy a better return than at least 80 percent of the people who spend more time and pay more in fees.

Think about that.

Is it sane to choose a 20 percent chance of investment success over an 80 percent chance?

DOES COUCH POTATO INVESTING WORK?

You bet. One of the reasons that I continue to write is the immense satisfaction I get from reader letters thanking me for helping them find their way to a generously funded retirement. Some readers write to tell me they have put together collections of columns to give to their sons and daughters.

In addition, I will show you the proof of the pudding. That's a regular report I do that shows how much principal is left after withdrawing an inflation-adjusted sum each year from savings. It's important to note this report doesn't list percentages or rates of return. It lists actual money remaining after periods of 3, 5, 10, 15, 20, 25, 30, and 35 years.

It's all about the actual money.

The results routinely show that you can pay virtually no attention to investing and still pay your bills in retirement. That means you can devote your time and energy to everything else in your life:

- The work you love
- The people you love
- The projects that provoke your passion

That's more than the proverbial win-win. It's a win-win-win-win.

THE MANAGED ALTERNATIVES DON'T WORK

Now compare Couch Potato Investing to all the confusing, expensive, and time-consuming alternatives.

Your local bookstore is filled with books that tell you how to build financial wealth and become "rich." Some of those books are quite lengthy. Most are complicated. Some are long *and* complicated. I've seen a few that should be sold by the pound.

Virtually all these books require that you be interested in the subject. They demand that you acquire a huge working knowledge.

How huge? Well, it's a long list.

Here are just a few of the words most people know little or nothing about: stocks, bonds, cash, money market funds, open and closed end mutual funds, exchange traded funds, certificates of deposit, savings accounts, Treasury securities, stock options, real estate investment trusts, cash value life insurance, annuities, optimization, variance, standard deviation. The list goes on.

And on.

The Investopedia website has 13,000 definitions. The *Oxford Dictionary of Finance and Banking* includes over 5,500 definitions. And that's just to start!

None of this knowledge is required to be a successful investor. Indeed, it could be said that the more knowledge you acquire, the greater the odds that you will make bad decisions. Those bad decisions are likely to fill you with regret, remorse, self-recriminations, and anger.

Choosing the Couch Potato Way, once you understand that it works, should be a no-brainer. Literally.

Unfortunately, it isn't.

Every day all of us are subject to a fire hose of media content suggesting that we will benefit from investing in this, that, or some other thing. It is virtually inescapable. It shows up on our phones, our visits to news providers, our watching of daily television, our magazines and our newspapers.

Whatever the source, the content insists that acting *today* is important and that someone knows something that you don't. In fact, *no one* knows the future. The only certainty in all that information is that everyone involved is making a living from it.

At your expense.

Finally, there is another reason this book is short.

In addition to respecting *your* time, I treasure mine. I am 84 years old, way too old to squander what remains of the precious gift we receive at birth.

If you want to know exactly how to become a Couch Potato investor right now, just skip to Part III, How to Invest Your Savings. It will tell you what funds to buy. It will show you the bonus of low-cost compound

growth while you are saving and accumulating. It will also show you the bonus of low-cost compound growth while you are dis-saving and spending your nest egg.

That, by the way, is a big deal.

Just fold down the corner of the page and start reading. From there you can skip to Part VII, More Couch Potato Cookbook – Exactly How to Do It. It will tell you what to do for each of the major investing platforms. It will also suggest some options that may be available in your employer's 401(k) or 403(b) plan. And if you are a federal employee, it will tell you how to use the Thrift Savings Plan and why you should avoid the annuity salespeople who will besiege you at retirement.

But I don't expect you to take anything on faith.

WHAT HUMANS ACTUALLY DO

In Part I, The Human Life Cycle, you'll read about the human life cycle and how it puts all of us in the same mortal boat. You'll see what it looks like in actual cash spending and how it effects – in a very nice way – how much you need to save.

Spoiler alert: Less.

It will also show you the sublime benefit of death.

A TOUR OF THE INVESTMENT BATTLEFIELD

In Part II, The Long, Glorious History of Investment Failure, you'll be introduced to the facts of what you've probably already experienced: the media mythology storm that tells us, minute by minute, why we need to

buy or sell *now* and how this or that will make us rich. Fortunately, we've got Weston Wellington to show us how untrue every claim is. No one knows the future, no matter how much they demand in payment.

HOW TO INVEST YOUR SAVINGS

If you like to take things on faith and want to start investing right now, just skip to Part III, How to Invest Your Savings. That's where you'll learn about the least expensive exchange-traded funds and how to buy them almost anywhere. You'll also learn that return on investment notions that aren't the most basic can sometimes be higher, but not when you adjust for risk.

You'll learn about the benefits of low-cost index investing while accumulating and, later, while spending in retirement – measured in actual spending power. Finally, I provide the answer to a question everyone asks: “How can I spend more?”

REASSURANCE, IN DOLLARS

In Part IV, The Proof Is in the Pudding, you'll see exactly how much cash retirees have had left if they take the Couch Potato Investing path. I've called this the *Pudding Report* because that's where the proof is. You'll see how much principal is left for periods of 3, 5, 10, 15, 20, 25, 30, and 35 years based on withdrawing 4 or 5 percent of your nest egg in the first year and then increasing that dollar amount by the rate of inflation each year from age 65 to age 100.

That withdrawal rate is based on the work of William Bengen, the financial planner who shocked the advisory world by introducing the reality of investment ups and downs. You'll also learn how much wiggle room you have for taking more without increasing the risk of too much month at the end of the money.

MEASURING THE BENEFITS OF COUCH POTATO INVESTING

In Part V, *The Rewards of Simplicity for Actual People*, you'll learn how "average" gets a bad rap. You'll be reminded of why "perfect is the enemy of good." You'll also be introduced to all the benefits of simplicity that are ignored by the money-is-all people. You'll learn that there are five kinds of wealth – not one – and that wealth addiction is a problem.

The time and energy you save are your tools to avoid being a technoserf in the economy coming toward us.

THE HIDDEN VALUES IN OUR UN-MONEY ECONOMY

In Part VI, *The Rewards Found Elsewhere*, you'll learn about the low-hanging fruit outside of investing – like home ownership for some, the beneficial feedback loop of saving, and the fruit of that feedback loop in the financial independence/retire early (FIRE) option.

COOKING THE COUCH POTATO WAY

Part VII, More Couch Potato Cookbook – Exactly How to Do It, expands what you learned in Part III, exploring the specifics of Couch Potato Investing choices. It also introduces how you might invest if you feel, as many do, that the entire world is going through a major change that requires rethinking how much you invest in the United States.

A BIBLIOGRAPHY YOU CAN READ

In Part VIII, The Data That Supports Everything I've Said, you'll take a stroll through the books and research papers that have been the foundation of Couch Potato Investing, just so you know why if you want to learn more.

The really good news here is that simplicity is a virtue, so just dive in.

CHAPTER ONE

WHAT HAPPENS WHEN AN ASPIRING ASTRONAUT AND BIOLOGIST BECOMES A WRITER

Man plans, God laughs.

—Yiddish proverb

did not intend to become a writer. At 16 I had a plan. I was going to be an astronaut. I was going to the moon.

Maybe further.

First, I learned how to fly, which I did using money I made mowing lawns. This was 1957, the year Russia launched the first earth satellite, *Sputnik*.

It weighed 193.8 pounds. The United States launched our first at the end of January 1958. It weighed a dainty 30.66 pounds.

To be an astronaut I had to be an engineer. I would also need to go to the Massachusetts Institute of Technology (MIT) because, well, the first astronauts would be from a place like MIT.

How did I know this? Easy. I had read an Arthur C. Clarke short story, "Superiority". It was about an intergalactic war in which one side lost its technological lead and, therefore, the war.

A blurb on a paperback told me it was required reading at MIT.

In spring 1958, my senior year at Princeton High School, I was looking for a way to explore oxygen production by *Chlorella* algae. I figured it would be necessary for longer term stays on the moon. So I went to Guyot Hall. I met Professor Gerhard Fankhauser on the staircase. He was chairman of the Princeton University biology department. He adopted me and gave me a part-time job taking care of his salamanders (and his two treasured haploid axolotls).

I never learned about oxygen production.

But I developed an interest in the math of growth and form, statistics, distribution patterns, and life cycles. I also learned that the British Thermal Unit, not the dollar, is the fundamental currency of all life. The money we humans create is a sloppy shadow on the wall of Plato's cave.

And, yes, I went to MIT, an event that surprised many, including my high school guidance counselor.

ADVANCED DILETTANTE STUDIES

But I did not become an engineer. I discovered that I liked writing more, that I *needed* to write. Like most life changes, it was a passionate discovery, not a choice. And MIT, being the amazing, flexible institution it is, let me organize a creative writing course, perhaps the first, not to mention take courses up the river at rival Harvard.

As someone with a degree in what might be called Advanced Dilettante Studies, finding employment wasn't a slam dunk. But, in addition to books, I've been writing columns for more than 50 years. First for glossy magazines. Then for newspapers. I have loved writing a newspaper column, particularly for my many years at the *Dallas Morning News*.

I tell you all this for a reason.

BELIEF SAYS SMARTS COUNT; THE DATA SAYS OTHERWISE

My education made it very difficult to give up the idea that smart people could make superior investment decisions. But as the data sources, software, and personal computers developed, it became inescapably clear that paying up for investment results was absolute folly.

Year after year the data revealed that low costs were important, that good stories about investment managers were just that: good stories. Good long-term results were not included.