

# The Little Book of Common Sense Investing: The Only Way to Guarantee Your Fair Share of Stock Market Returns

by John C. Bogle

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## Summary:

The Little Book of Common Sense Investing: The Only Way to Guarantee Your Fair Share of Stock Market Returns by John C. Bogle is a comprehensive guide to investing in the stock market. The book provides an overview of the stock market, explains the basics of investing, and offers advice on how to make the most of your investments. Bogle outlines the importance of diversification, the power of index funds, and the pitfalls of trying to time the market. He also provides advice on how to select stocks, mutual funds, and ETFs, and how to create a portfolio that is tailored to your individual needs.

Bogle begins by discussing the importance of understanding the stock market and the risks associated with investing. He explains the concept of diversification and how it can help reduce risk. He then outlines the advantages of index funds, which are low-cost, tax-efficient investments that track the performance of a broad market index. He also explains the concept of asset allocation, which is the process of dividing your investments among different asset classes in order to reduce risk and maximize returns.

Bogle then provides advice on how to select stocks, mutual funds, and ETFs. He explains the different types of stocks and how to evaluate them. He also provides advice on how to select mutual funds and ETFs, and how to create a portfolio that is tailored to your individual needs. He also discusses the importance of rebalancing your portfolio and how to do it.

Finally, Bogle provides advice on how to manage your investments. He explains the importance of having a long-term investment plan and how to stick to it. He also provides advice on how to monitor your investments and how to adjust your portfolio when necessary. He also discusses the importance of minimizing taxes and fees, and how to do so.

The Little Book of Common Sense Investing is an invaluable resource for anyone looking to invest in the stock market. It provides a comprehensive overview of the stock market and offers advice on how to make the most of your investments. It is an essential guide for anyone looking to build a successful portfolio.

## Main ideas:

**#1. *Start Early: Investing early and regularly is the key to long-term success. Investing early allows you to take advantage of the power of compounding returns, and regular investing helps you to take advantage of dollar-cost averaging.***

Starting early is one of the most important steps to successful investing. By investing early, you can take advantage of the power of compounding returns. Compounding returns are when the returns from your investments are reinvested, allowing you to earn even more returns. This can be a powerful tool for long-term investors, as it allows your money to grow exponentially over time.

In addition to taking advantage of compounding returns, investing early also allows you to take advantage of dollar-cost averaging. Dollar-cost averaging is when you invest a fixed amount of money at regular intervals, regardless of the market conditions. This helps to reduce the risk of investing in volatile markets, as you are investing a consistent amount of money over time.

By investing early and regularly, you can take advantage of both compounding returns and dollar-cost averaging. This can help you to maximize your returns over the long-term, and ensure that you get your fair share of stock market returns.

**#2. Invest in Low-Cost Index Funds: Low-cost index funds are the best way to invest in the stock market. They provide broad diversification, low costs, and long-term returns that are likely to exceed those of actively managed funds.**

Investing in low-cost index funds is a smart way to get involved in the stock market. Index funds are a type of mutual fund that tracks a specific market index, such as the S&P 500. By investing in an index fund, you are essentially investing in the entire stock market, as the index fund will hold a variety of stocks that make up the index. This provides you with broad diversification, which helps to reduce risk. Additionally, index funds typically have lower costs than actively managed funds, which means more of your money is going towards investments rather than fees. Finally, index funds have historically outperformed actively managed funds over the long-term, so you are likely to get a better return on your investment.

The key to investing in index funds is to look for funds with low costs. Many index funds have expense ratios of 0.2% or less, which is much lower than the average actively managed fund. This means that more of your money is going towards investments rather than fees, which can make a big difference in your returns over the long-term. Additionally, you should look for funds that track a broad market index, such as the S&P 500, as this will provide you with the most diversification.

Overall, investing in low-cost index funds is a great way to get involved in the stock market. They provide broad diversification, low costs, and long-term returns that are likely to exceed those of actively managed funds. If you are looking for a way to invest in the stock market, index funds are a great option.

**#3. Avoid Market Timing: Market timing is a fool's game. Trying to time the market is a waste of time and money, and it is likely to lead to worse returns than simply investing in a low-cost index fund.**

Avoid Market Timing: Market timing is a strategy that attempts to predict when to buy and sell stocks in order to maximize returns. Unfortunately, it is a fool's game. Trying to time the market is a waste of time and money, and it is likely to lead to worse returns than simply investing in a low-cost index fund. Market timing is a difficult and unpredictable endeavor, and it is impossible to consistently predict the direction of the stock market. Even the most experienced investors have difficulty predicting the market's movements, and it is likely that any attempts to time the market will be unsuccessful. Instead of trying to time the market, investors should focus on long-term investing and diversifying their portfolios. Investing in a low-cost index fund is a simple and effective way to ensure that you get your fair share of stock market returns.

**#4. Rebalance Your Portfolio: Rebalancing your portfolio is important to ensure that your investments remain in line with your goals and risk tolerance. Rebalancing helps to reduce risk and can lead to better returns over the long term.**

Rebalancing your portfolio is an important part of investing. It helps to ensure that your investments remain in line with your goals and risk tolerance. Rebalancing helps to reduce risk and can lead to better returns over the long term. It involves periodically adjusting the mix of investments in your portfolio to maintain the desired asset allocation. This can be done by selling some of the investments that have increased in value and buying more of the investments that have decreased in value. This helps to keep your portfolio diversified and reduces the risk of having too much of your money invested in one particular asset class.

Rebalancing can also help to reduce the effects of market volatility. By periodically adjusting the mix of investments in your portfolio, you can reduce the risk of having too much of your money invested in one particular asset class. This can help to reduce the risk of large losses due to market downturns. Rebalancing can also help to ensure that your portfolio

is in line with your long-term goals and risk tolerance.

Rebalancing your portfolio is an important part of investing and can help to reduce risk and lead to better returns over the long term. It is important to periodically review your portfolio and make adjustments as needed to ensure that your investments remain in line with your goals and risk tolerance.

**#5. *Diversify Your Investments: Diversification is key to reducing risk and achieving long-term success. Investing in a variety of asset classes and sectors can help to reduce risk and increase returns.***

Diversifying your investments is an important part of any successful investment strategy. By investing in a variety of asset classes and sectors, you can reduce your risk and increase your returns. Investing in stocks, bonds, mutual funds, and other financial instruments can help to spread out your risk and ensure that you are not overly exposed to any one particular asset class. Additionally, diversifying your investments can help to protect you from market volatility and provide you with a more consistent return over time.

When diversifying your investments, it is important to consider your risk tolerance and financial goals. Different asset classes and sectors may have different levels of risk and return, so it is important to understand the risks associated with each investment before committing your money. Additionally, it is important to consider your time horizon and the amount of money you are willing to invest. By taking the time to understand your financial goals and risk tolerance, you can create a diversified portfolio that is tailored to your individual needs.

Diversifying your investments is an important part of any successful investment strategy. By investing in a variety of asset classes and sectors, you can reduce your risk and increase your returns. Additionally, diversifying your investments can help to protect you from market volatility and provide you with a more consistent return over time. By taking the time to understand your financial goals and risk tolerance, you can create a diversified portfolio that is tailored to your individual needs.

**#6. *Avoid High-Cost Funds: High-cost funds are a bad investment. They are likely to underperform low-cost index funds, and they can eat away at your returns.***

Avoiding high-cost funds is an important part of investing wisely. High-cost funds are a bad investment because they are likely to underperform low-cost index funds. This is because the higher fees associated with these funds reduce the returns you can expect to receive. The fees associated with high-cost funds can eat away at your returns, leaving you with less money than you would have if you had invested in a low-cost index fund. Additionally, high-cost funds often have higher levels of risk, which can further reduce your returns.

It is important to do your research when selecting funds to invest in. Make sure to compare the fees associated with different funds and select the one with the lowest fees. This will help ensure that you are getting the most out of your investments and that you are not paying too much in fees. Additionally, it is important to consider the level of risk associated with different funds and select the one that is most appropriate for your investment goals.

By avoiding high-cost funds and selecting low-cost index funds, you can ensure that you are getting the most out of your investments. This will help you maximize your returns and ensure that you are getting the best possible return on your investments.

**#7. *Avoid Active Management: Active management is a losing game. Most actively managed funds underperform their benchmarks, and they are likely to cost you more in fees.***

Active management is a strategy that involves attempting to beat the market by selecting individual stocks or other investments that are expected to outperform the market. It is a strategy that is often employed by professional investors and fund managers. Unfortunately, it is a strategy that has been proven to be largely unsuccessful. Studies have shown that the majority of actively managed funds underperform their benchmarks, such as the S&P 500. This means that

investors who choose to employ active management are likely to end up with lower returns than if they had simply invested in a low-cost index fund that tracks the same benchmark. Furthermore, actively managed funds typically come with higher fees than index funds, which further reduces the potential returns for investors.

For these reasons, it is generally recommended that investors avoid active management and instead opt for a passive approach. This involves investing in a low-cost index fund that tracks a broad market index, such as the S&P 500. This approach has been proven to be more successful in the long run, as it eliminates the need to try and pick individual stocks or other investments that are expected to outperform the market. Furthermore, it also eliminates the need to pay higher fees for actively managed funds.

In conclusion, active management is a losing game. Most actively managed funds underperform their benchmarks, and they are likely to cost you more in fees. For these reasons, it is generally recommended that investors avoid active management and instead opt for a passive approach. This involves investing in a low-cost index fund that tracks a broad market index, such as the S&P 500. This approach has been proven to be more successful in the long run, and it is the only way to guarantee your fair share of stock market returns.

**#8. *Avoid Unnecessary Risk: Taking on unnecessary risk is a bad idea. Investing in risky assets can lead to large losses, and it is likely to reduce your long-term returns.***

Avoiding unnecessary risk is an important part of investing. Taking on too much risk can lead to large losses, and it can reduce your long-term returns. It is important to understand the risks associated with any investment before you commit to it. You should also consider the potential rewards of the investment and how they compare to the risks. If the potential rewards do not outweigh the risks, then it is best to avoid the investment.

It is also important to diversify your investments. This means investing in a variety of different assets, such as stocks, bonds, and real estate. This will help to reduce the risk of any one investment performing poorly and dragging down your overall returns. You should also consider investing in index funds, which are designed to track the performance of a broad market index, such as the S&P 500. This will help to reduce the risk of investing in individual stocks.

Finally, it is important to remember that investing is a long-term process. You should not be too concerned with short-term fluctuations in the market. Instead, focus on the long-term potential of your investments and make sure that you are taking on only the amount of risk that is necessary to achieve your goals.

**#9. *Avoid Leverage: Leverage can be a dangerous tool. It can lead to large losses if the market moves against you, and it can reduce your returns over the long term.***

Avoiding leverage is a key principle of common sense investing. Leverage is a tool that can be used to increase returns, but it can also lead to large losses if the market moves against you. Leverage amplifies the effects of both gains and losses, so it can reduce your returns over the long term. It is important to understand the risks associated with leverage and to use it only when you are confident that the potential rewards outweigh the risks.

When using leverage, it is important to have a plan in place to manage the risks. This includes setting stop-loss orders to limit losses, and having a plan to exit the position if the market moves against you. It is also important to diversify your investments to reduce the risk of large losses due to leverage. By diversifying, you can reduce the risk of large losses from any one position.

Finally, it is important to remember that leverage is a tool that should be used with caution. It can be a powerful tool to increase returns, but it can also lead to large losses if the market moves against you. By understanding the risks associated with leverage and using it only when the potential rewards outweigh the risks, you can ensure that you are making the most of your investments.

**#10. *Avoid Complex Strategies: Complex strategies are often a bad idea. They can be difficult to understand and can lead to large losses if the market moves against you.***

Complex strategies are often a bad idea when it comes to investing. They can be difficult to comprehend and can lead to large losses if the market moves against you. Complex strategies often involve a lot of moving parts and can be difficult to keep track of. They can also be expensive to implement, as they often require a lot of research and analysis. Additionally, complex strategies can be difficult to adjust if the market changes, as they often require a lot of time and effort to adjust.

In contrast, simpler strategies are often more effective and easier to understand. They can be easier to adjust if the market changes, and they can be less expensive to implement. Simple strategies can also be easier to track and monitor, as they often involve fewer moving parts. Additionally, simple strategies can be more reliable, as they are often based on sound principles and have a proven track record of success.

For these reasons, it is often best to avoid complex strategies when investing. Simple strategies can often be more effective and easier to understand, and they can be less expensive to implement. Additionally, they can be easier to adjust if the market changes, and they can be more reliable. By avoiding complex strategies, investors can often achieve better results with less effort and expense.

**#11. *Avoid Market Hype: Market hype is often a sign of trouble. It can lead to large losses if the market moves against you, and it can be difficult to resist the temptation to invest in the latest hot stock.***

Avoiding market hype is an important part of investing wisely. When the market is hot, it can be tempting to jump in and invest in the latest hot stock. But this can be a dangerous move, as the market can quickly turn against you and lead to large losses. It is important to remember that the stock market is unpredictable and that it is best to invest with a long-term view. Investing in stocks that have a proven track record of success and that have a good chance of continuing to perform well in the future is a much safer approach than chasing after the latest hot stock.

It is also important to remember that the stock market is not a get-rich-quick scheme. Investing in stocks requires patience and discipline, and it is important to have realistic expectations about the returns you can expect. Investing in stocks is a long-term game, and it is important to have a diversified portfolio that is designed to weather market downturns. By avoiding market hype and investing in stocks with a long-term view, you can ensure that you get your fair share of stock market returns.

**#12. *Avoid Overconfidence: Overconfidence can be dangerous. It can lead to large losses if the market moves against you, and it can lead to poor decision-making.***

Avoiding overconfidence is an important part of investing. Overconfidence can lead to large losses if the market moves against you, and it can lead to poor decision-making. It is important to remember that no one can predict the future of the stock market, and that no one has a crystal ball. It is important to remain humble and to remember that the stock market is unpredictable and can move in unexpected directions.

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**#13. *Avoid Emotional Investing: Emotional investing is a bad idea. It can lead to large losses if the market moves against you, and it can be difficult to resist the temptation to invest in the latest hot stock.***

Avoiding emotional investing is essential for any investor who wants to be successful. When emotions take over, it can be difficult to make rational decisions. Instead of relying on gut feelings or the latest hot stock, investors should focus on long-term goals and research-backed strategies. This means taking the time to understand the fundamentals of the stock market and the companies in which you are investing. It also means having a plan and sticking to it, even when the market is volatile. By taking a disciplined approach to investing, you can avoid the pitfalls of emotional investing and increase your chances of success.

When it comes to investing, it is important to remember that the stock market is unpredictable. No one can predict the future, so it is important to focus on the long-term and diversify your investments. This means investing in a variety of stocks, bonds, and other assets to spread out your risk. It also means avoiding the temptation to chase after the latest hot stock. Instead, focus on building a portfolio that is diversified and tailored to your individual goals.

Finally, it is important to remember that investing is a marathon, not a sprint. It takes time to build wealth, and it is important to stay focused on the long-term. Avoiding emotional investing is essential for any investor who wants to be successful. By taking a disciplined approach to investing, you can increase your chances of success and achieve your financial goals.

**#14. *Avoid Chasing Performance: Chasing performance is a bad idea. It can lead to large losses if the market moves against you, and it can be difficult to resist the temptation to invest in the latest hot stock.***

Avoiding chasing performance is an important part of successful investing. When investors chase performance, they are often investing in stocks that have recently done well, hoping to ride the wave of success. Unfortunately, this strategy often backfires. The stock market is unpredictable, and what goes up can quickly come down. By chasing performance, investors are taking on more risk than they may realize, and they may end up losing money if the market turns against them.

It can be difficult to resist the temptation to invest in the latest hot stock, but it is important to remember that past performance is no guarantee of future results. Instead of chasing performance, investors should focus on building a diversified portfolio of stocks and bonds that will provide steady returns over the long term. This approach is more likely to lead to success than trying to time the market or pick the next big winner.

Investing is a long-term game, and it is important to remember that there will be ups and downs along the way. By avoiding chasing performance and focusing on building a diversified portfolio, investors can increase their chances of achieving their financial goals.

**#15. *Avoid Over-Diversification: Over-diversification can be a bad idea. It can lead to large losses if the market moves against you, and it can reduce your returns over the long term.***

Avoiding over-diversification is an important part of successful investing. When you diversify too much, you spread your investments too thin, and you may not be able to benefit from the gains of any one particular stock or sector. Over-diversification can also lead to large losses if the market moves against you, as you may not have enough of a

stake in any one particular stock or sector to make up for the losses. Additionally, over-diversification can reduce your returns over the long term, as you may not be able to benefit from the gains of any one particular stock or sector.

The key to successful investing is to diversify your investments, but not to the point of over-diversification. You should focus on investing in a few stocks or sectors that you believe will perform well over the long term, and then diversify your investments within those stocks or sectors. This will help you to maximize your returns while minimizing your risk.

**#16. *Avoid Short-Term Investing: Short-term investing is a bad idea. It can lead to large losses if the market moves against you, and it can reduce your returns over the long term.***

Avoiding short-term investing is a wise decision. Short-term investing can be a risky endeavor, as the market can move against you quickly and cause large losses. Additionally, short-term investing can reduce your returns over the long term. This is because short-term investments are subject to higher taxes and transaction costs, which can eat away at your returns. Furthermore, short-term investments are more likely to be affected by market volatility, which can lead to losses.

In contrast, long-term investing is a much safer and more profitable strategy. Long-term investments are less likely to be affected by market volatility, and they are subject to lower taxes and transaction costs. Additionally, long-term investments have the potential to generate higher returns over the long run. This is because long-term investments have more time to benefit from compounding returns, which can lead to greater returns over time.

For these reasons, it is important to avoid short-term investing and focus on long-term investments. Long-term investments can provide greater returns and are less risky than short-term investments. By investing for the long-term, you can ensure that you get the most out of your investments and maximize your returns.

**#17. *Avoid Unconventional Strategies: Unconventional strategies are often a bad idea. They can be difficult to understand and can lead to large losses if the market moves against you.***

Unconventional strategies can be tempting, but they are often a bad idea. These strategies are often complex and difficult to understand, and they can lead to large losses if the market moves against you. It is important to remember that the stock market is unpredictable and that no one can predict the future. Therefore, it is best to stick to conventional strategies that have been proven to work over time. Investing in a diversified portfolio of stocks and bonds is a good way to ensure that you will get a fair share of stock market returns over the long term. This strategy has been proven to be successful over time and is much less risky than trying to time the market or using complex strategies.

It is also important to remember that the stock market is volatile and that there will be periods of losses as well as gains. Therefore, it is important to have a long-term investment plan and to stick to it. This will help you to stay focused on your goals and to avoid making rash decisions that could lead to large losses. Investing in a diversified portfolio of stocks and bonds is a good way to ensure that you will get a fair share of stock market returns over the long term.

**#18. *Avoid Uninformed Investing: Uninformed investing is a bad idea. It can lead to large losses if the market moves against you, and it can be difficult to resist the temptation to invest in the latest hot stock.***

Avoiding uninformed investing is essential for any investor who wants to be successful in the stock market. Uninformed investing is when an investor makes decisions without doing any research or understanding the risks involved. This type of investing can be very dangerous, as it can lead to large losses if the market moves against you. It can also be difficult to resist the temptation to invest in the latest hot stock, which may not be a wise decision in the long run.

The best way to avoid uninformed investing is to do your research and understand the risks involved in any investment. This means taking the time to read up on the company, its financials, and the industry it operates in. It also means understanding the different types of investments available and the risks associated with each. By taking the time to do your research, you can make informed decisions that will help you achieve your financial goals.

John C. Bogle's book, *The Little Book of Common Sense Investing: The Only Way to Guarantee Your Fair Share of Stock Market Returns*, is a great resource for investors who want to learn more about investing. In it, Bogle outlines the basics of investing and provides practical advice on how to make smart decisions. He also explains the importance of diversification and how to create a portfolio that is tailored to your individual needs. By following Bogle's advice, investors can avoid uninformed investing and increase their chances of success in the stock market.

**#19. *Avoid Over-Trading: Over-trading is a bad idea. It can lead to large losses if the market moves against you, and it can reduce your returns over the long term.***

Avoiding over-trading is an important part of successful investing. Over-trading is when an investor buys and sells too frequently, often in response to short-term market movements. This can lead to large losses if the market moves against you, and it can reduce your returns over the long term.

The key to successful investing is to have a long-term strategy and stick to it. This means investing in a diversified portfolio of stocks and bonds, and holding them for the long term. This will help you to avoid the temptation to over-trade, and will help you to maximize your returns over the long term.

It is also important to remember that the stock market is unpredictable, and that short-term market movements should not be taken too seriously. Trying to time the market is a fool's errand, and it is best to focus on the long-term trends. By avoiding over-trading and focusing on the long-term, you can ensure that you get the most out of your investments.

**#20. *Avoid Tax-Related Strategies: Tax-related strategies are often a bad idea. They can be difficult to understand and can lead to large losses if the market moves against you.***

Tax-related strategies are often a bad idea for investors. They can be complex and difficult to understand, and if the market moves against you, they can lead to large losses. Tax-related strategies can also be expensive, as they often require the use of specialized advisors and accountants. Furthermore, they can be difficult to implement and may require frequent adjustments to keep up with changing tax laws. Finally, they can be risky, as they often involve taking on additional debt or leveraging investments.

For these reasons, it is often best to avoid tax-related strategies and instead focus on long-term investing strategies that are simple and easy to understand. These strategies should be designed to maximize returns while minimizing risk. Investing in a diversified portfolio of low-cost index funds is one such strategy that can help investors achieve their long-term financial goals without the need for complex tax-related strategies.