A Surprisingly Easy Strategy to Make Money in the Stock Market

90% of Warren Buffett's will follows this strategy.

Matt Lane Follow
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Disclaimer: these are my notes on how I personally plan to make money in the stock market. I'm not a certified financial advisor and this article is not financial advice.

A few years ago I lost upwards of five figures investing in a single stock. It was a small, volatile tech company I shouldn't have been anywhere near as a beginner investor.

I was much dumber back then. Now I'm slightly less dumb — at least I hope.

Regardless, the experience shook me to my core. Since then, I've steered clear of the stock market, haunted by past traumas and painful regrets.

But recently, all the buzz about casual "Robinhood traders" beating billionaire investors in the post-coronavirus market reignited my interest (don't worry, this article's conclusion is unrelated to Robinhood traders).

So in April, I dove back into the world of stocks. But this time, instead of throwing in money right away like an idiot, I've been in learning mode. As of press time, I've consumed over 100 hours of content through books and videos produced by multi-millionaire and billionaire traders.

> Good news: I found that there's only one strategy you need to know in order to make money, and it follows a simple philosophy everyone can understand.

So if you've been sitting on the sidelines because you don't like numbers and charts (I don't either), I'm going to show you a highly profitable, Warren Buffett-approved method that requires minimal technical analysis. To understand how it works, let's first lay out some ground rules.

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Fundamental Principles

1. Eventually, the Market Always Goes Up

A snapshot of the S&P 500's performance over the last 90 years courtesy of macrotrends.net.

The most important thing I've learned so far is that over time, the market trends upwards.

The chart above shows the S&P 500's performance over the last 90 years. The S&P 500 tracks the performance of the 500 biggest companies in the U.S. and is commonly used as an indicator of the stock market's health as a whole. As you can see, despite the dips caused by occasional recessions, the overall trend is that the market value rises.

Note: it's important to distinguish between the market and individual stocks. This chart *does not* imply anything about individual stocks. There's always a chance Facebook, Apple or even Google goes bankrupt.

2. Don't Try to Time the Market

The second thing I learned was that it's virtually impossible for average investors to predict whether the market will go up or down in the short term.

You can get valuable hints from the news, earnings reports and analytics tools, but unless you have an army of researchers that can mine behind-the-scenes information about government agencies and company executives, the likelihood that your prediction will be wrong is high.

That means average investors should stay away from short-term investing, as it's likely to end in tears.

3. Even the Experts Are Often Wrong

Mastering all the technical chart strategies and obtaining behind-the-scenes information doesn't guarantee you'll make money either.

According to investopedia.com, a Credit Suisse study revealed that from January 1994 to October 2018, the S&P 500 outperformed every major hedge fund's game plan by 2.25%.

That's not to say there aren't investors who *do* regularly outperform the market. But as a whole, this shows that the stock market is so unpredictable that even experts have a hard time nailing their investments.

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The Only Strategy You Need

So what's the solution? Should you give up and put your money elsewhere?

Not so fast. Let's recap what we know:

- Eventually, the market always goes up
- It's nearly impossible for average investors to time the market
- Even experts are often wrong about short term predictions

In light of these insights, the best strategy for average investors is the following.

Go Long With Index Funds

Index funds are portfolios of stocks that follow the market as a whole. When you buy one share of an index fund, you are essentially buying stock in the U.S. market, rather than stock in just one company. This aligns you with the market, which has historically yielded about a 10% annualized return.

Why is this good? Let's go back to the first lesson: eventually, the market always goes up. That means instead of pulling your hair out over whether a specific stock will go up or down, just put money in an index fund. Then sit back and relax because you know you'll make money in the long run.

In a recent analysis, a Motley Fool writer concludes that if you invested $10,000 into an index fund in 1980, it would've been worth *$760,000* by February 2018.

As you can tell, this strategy is built strictly on long-term returns, so put away any fantasies of becoming an overnight millionaire. Instead, be prepared to hold your investment for at least 10 years.

Bonus fact: Warren Buffett structured his will so that 90% of his wealth goes into an index fund after he dies.

Invest According to a Schedule

So how do you know *when* to buy?

Let's revisit points two and three: don't try to time the market because even experts often fail. That means instead of waiting for the market to drop so you can buy low, the best strategy is to invest according to a schedule.

Top highlight

Every month, put a percentage of your salary into an index fund. In doing this, sometimes you'll be buying when the market is at its peak and sometimes you'll catch it when it's at a low.

However, none of that matters because you're investing for the long run, not the next few days, weeks or months. Whether or not the fund drops in value the next day is irrelevant because you know that it will go up over the course of the next few decades.

So there's the entire strategy: put money in an index fund every month, then forget about it. Come back in 20 years and you will have made significant cash.

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"Surprisingly Easy"

Did that take a burden off your shoulders? It did for me. As a creative who isn't naturally wired to crunch numbers or read charts, this strategy is as straightforward as it gets.

With this mentality, I no longer have to worry when the media fear mongers about the health of the economy or speculates about Facebook's upcoming earnings report. As long as society doesn't collapse, I *will* make money in the long run.

That frees up my time to pursue other income-bearing activities that are closer aligned with my passions, like writing. Then I'll invest a portion of that income into an index fund.

It's a simple system that has been proven to work historically, and I couldn't be more grateful it exists.

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