

Index Investing

Index investing is the practice of buying an entire market of stocks, bonds, or some other financial asset. Sometimes the targeted market is slightly smaller; an index investor will buy all the financial assets in a specific sector or industry.

The rationale behind index investing is that since selectively investing is so difficult, an investor can at least tie the market (and beat 70 – 90 percent of active investors) by simply buying all investments available. Not only is index investing much simpler, it will be less expensive as well.

This thinking is not entirely invalid. But index investing is an approach that surrenders the possibility of beating the market by even a slight amount. And giving up even a slight outperformance (in time) means giving up a huge amount of money.