

ETF Investing Guide: One-Page Summary of the Entire Guide

Posted on Jul 1st, 2006

Stock Picking

- Stock picking is not attractive as a core investment strategy for non-professional investors: it's extremely hard to beat the market by picking individual stocks and your stock picks may be correlated with your employment risk ([Was Peter Lynch Really Right?](#)); and buying and selling individual stocks can lead to poor long term after-tax performance ([Your Stock Picks Aren't As Good As They Seem!](#)).
- Tech stocks attract many individual investors, yet investing in tech stocks is particularly difficult. 5% of tech stocks historically account for 100% of their return, so picking them is challenging and sticking with your winners can lead to a highly concentrated portfolio ([The Problem With Tech Stocks](#)).
- Purchasing individual stocks probably won't give you adequate diversification. Focusing on stock picking also distracts you from asset allocation, yet most investment performance is attributable to asset allocation rather than stock picking ([Did Stock Picking Distract You?](#)).
- Individuals who try to pick stocks trail the market by about 2 percentage points annually on average ([Measuring Stock Pickers' Underperformance](#)). And that excludes taxes, which would likely make the number considerably worse.
- In theory, you can beat the market with thorough research focused on the areas of greatest information inefficiency ([How To Beat the Market](#)). One possibility is small cap stocks, though they have lost much of the attraction they had in early 2003 ([Whatever Happened to Tech Uncovered?](#)).
- But there are two caveats: first, due to the resulting portfolio concentration and risk, picking illiquid stocks is only attractive for a small part of a portfolio ([Considering Small Caps](#)). And second, you should only try to pick stocks for a small part of your portfolio if you know you're good at it, ie. if you've calculated your performance after fees and taxes and found that you're really capable of beating the market. Many investors, however, never measure their after-tax, after-fees performance, and believe they are great stock pickers when they're not.

6 Breakout Stocks

Already these breakout stocks are up 138% to 762%.

But they're not selling. All six breakouts are top *buys* for your money now. Get their names, plus David & Tom Gardner's No. 1 stock ideas now.

It's yours free in their latest report, "The Motley Fool's Top 2 Picks." Get it now.

[Click here for "The Motley Fool's Top 2 Picks!"](#)

A trusted service from **The Motley Fool**.

Mutual Funds

- Actively managed mutual funds are generally a bad deal ([Why You Shouldn't Buy Mutual Funds](#)). Research suggests they under-perform the market indexes by 2-3 percentage points per year in aggregate, adjusting for survivorship bias.
- Mutual fund ratings give you little useful information ([Mutual Fund Ratings](#)), and if you switch into and out of mutual funds because of changes in ratings you'll get hit with taxes and possibly large fees.
- The under-performance of mutual funds is not a surprise when you take a realistic (but cynical) look at the mutual