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Warren Buffett tells wife: go cheap and passive

By Chris Flood

Warren Buffett issued some startlingly simple financial advice in the latest Berkshire Hathaway annual report, along with an extraordinary vote of confidence for Vanguard.

Writing about the instructions laid out in his will, Mr Buffett said his advice for the cash left to his wife was that 10 per cent should go to short-term government bonds and 90 per cent into a very low-cost S&P 500 index fund.

“I suggest Vanguard’s [S&P 500 index fund],” wrote Mr Buffett, adding that the long-term results from this policy would be superior to those attained by most investors, whether pension funds, institutions or individuals, that employed high-fee managers.

Mr Buffett highlighted the benefit of cheap tracker funds, writing that the goal of the non-professional investor should not be to pick winning stocks but to own a cross-section of businesses that in aggregate were bound to do well.

He also attacked active investing, saying individuals and institutions were constantly being urged to buy and sell assets by those who profited from giving advice or effecting transactions.

He noted that the resulting frictional costs of trading could be “huge” and “devoid of benefit” for investors in aggregate.

“So ignore the chatter, keep your costs minimal, and invest in stocks as you would in a farm,” wrote Mr Buffett.