Buffett's index fund outgains hedge funds in 10-year bet

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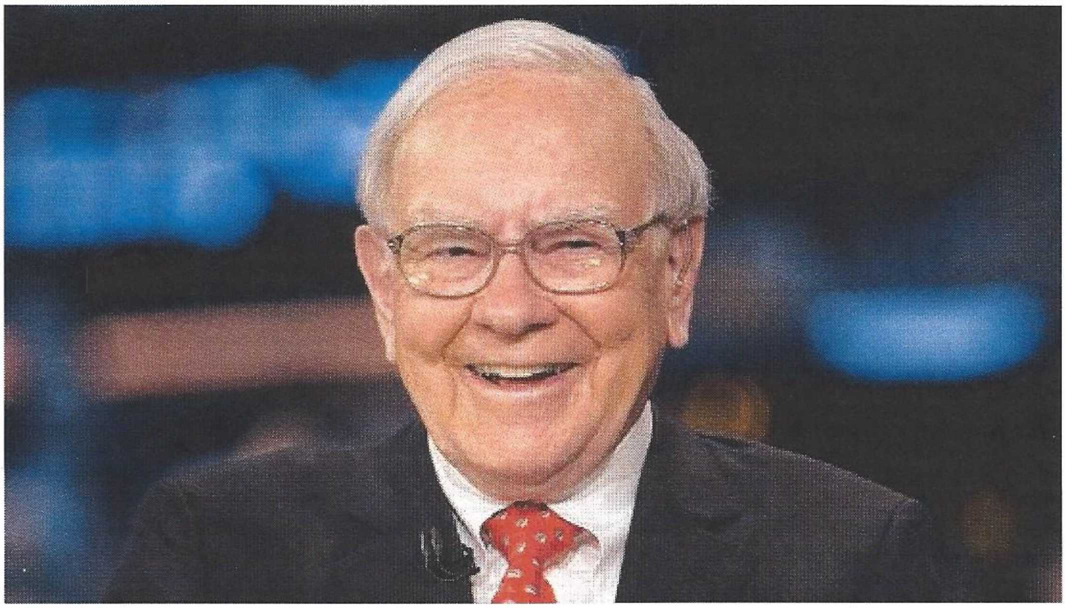

Adam Jeffery | CNBC
Warren Buffett

The stock market index fund Warren Buffett picked in a bet continues to outpace a collection of hedge funds seven years into the 10-year wager.

The latest standings in Buffett's bet with the money managers who own Protege Partners were reported Tuesday by *Fortune* magazine. Buffett made the bet in 2008 to demonstrate how hefty fees can hurt investment returns.

The Vanguard S&P 500 Admiral index fund Buffett chose is up 63.5 percent since the bet began.

The five funds of hedge funds Protege picked were up roughly 19.6 percent.

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A charity of the winner's choosing will receive at least $1 million. The money both sides put up is invested in Berkshire Hathaway, and it is now worth roughly $1.7 million.

Indexing vs. Hedge Funds – And The Winner Is…?

Posted on *February 9, 2015* ***by*** *Michael Reese*

You may have seen this in the media when it came out seven years ago. Back in 2008, Warren Buffett made a bet for charity. He put up $1 million of his own money and he deposited that amount into a Vanguard S&P 500 index fund. He then challenged Protege Partners to put up their own $1 million into a set of hedge funds of their own choice. The bet was to let the money grow for 10 years to see who would have more at the end. The hedge fund managers who are supposed to be some of the best managers in the world, or an un-managed, inexpensive, index fund.
Either way, the charities win as at the end of 10 years, both accounts go to them.

We are seven years in, and so far Warren Buffett's approach of a simple unmanaged index fund is kicking the pants off the Wall Street hedge fund darling's (who also charge a 2% per year PLUS 20% of gains).

In other words, so far, paying for the expertise of some of the world's best money managers is a pretty big waste of money.

You can read more on the article link below.

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I bring this information to you because it is a great illustration of how people have a tendency to over complicate things to their detriment, especially in the financial world. Hedge funds are the classic Wall Street "story" of how some people are just smart enough to beat the markets over time. They tell us that some people have systems, or computer programs, that will consistently beat the markets, so we should pay them a ton of fees for their expertise.

Warren Buffett says Wall Street is full of crap, and so far, he is clearly right. All those fees end up going into the pockets of the Wall Street machine, and NOT into the investor's pockets.

Financial success comes in keeping things simple. Focus on hitting singles and doubles. Make sure your income is protected. Don't be greedy. Life is a lot simpler and happier that way.