

How do new investors learn what to do? Well, you might read a book. You might watch a video. You could ask a friend or relative for advice. Before I studied finance, I traded stocks. A friend introduced me to her broker, and her broker encouraged me to actively buy and sell. I made a lot of mistakes. I traded way too actively, I had an under-diversified portfolio, and I paid too little attention to fees. Well, in addition to reading a book, watching a video, asking a friend for advice, there's one way that we all get information about trading and that's from advertising. Several years ago my friends Brad Barber, Kim Elsbach and I did a study of television commercials and print commercials run by the brokerage industry. With support from the AARP we analyzed a bunch of television ads and print ads, and we looked for common themes in these ads. There's a little bit of good news, which is over the years the ads clearly became funnier. They were pretty amusing. But there were consistent themes in many of these ads that we thought gave messages that were really not in the best interests of most investors.

One of these themes was, you are in control. Another is that trading is fun, you should be doing it for fun. And another is that anyone can do it. So what's wrong with these messages? You are in control. Well, whether you make your own investment decisions or you seek professional advice, there are simply risks in financial markets over which you have no control. And actively buying and selling stocks doesn't decrease those risks, it increases them. Trading is fun. Well, what I have to say about that is, you should invest to earn the money to do the things that you really think are fun. Anybody can do it. Of course, anybody can buy and sell stocks. But individuals who actively buy and sell stocks tend to earn lower, not higher, returns than people who buy low-cost, well-diversified mutual funds.

You know, many years ago I saw this ad written, or this comment written on an E\*TRADE website. It said, "Show the world you don't need no stinking broker or banker telling you how to manage your own money. You've taken back control." All right. I want to show you a print ad on control. This nice young woman and her baby. The text reads, "You are the CEO of your life. Think about it. Your life is like a business. It makes sense that you're the one in control. And that's why we make it easy to buy and sell stocks." This is a bait and switch. What does this young woman want? What she wants, she wants to earn good returns. And what she really wants control over is how much money she has when her baby is, say, ready to go to college or when she's ready to buy a house. What does she get control over? She gets control over which stocks that she buys and sells. You know, I'd let anyone pick my portfolio, if I could pick the return. It's the return you care about. Now imagine you're in Las Vegas. What if you're in Las Vegas, and you're in a casino, and you see a big sign over the roulette wheel. And the sign says, you're in control. And you get up to the roulette wheel and you find out, well, you get to choose which number you bet on. But the house is going to spin the wheel. That's not control.

All right, let's take a look at my favorite print ad on control. This sweet, young woman says, "I don't want to just beat the market. I want to wrestle its scrawny little body to the ground and make it beg for mercy." You know, if she were talking about a roulette wheel that way, we'd be recommending psychiatric care. You know? The market isn't something that a young woman can wrestle to the ground

and make beg for mercy. All right, there's another theme that you see a lot in these ads, which is trading is fun. E\*TRADE says, "Imagine rolling over and saying, 'that was better than investing.'" Psychologists find that when people are in a good mood, they're more spontaneous, more creative, and less critical in their decision making. When they're in a serious mood, they're less spontaneous, more analytical, and more critical in their decision making. So if you want someone to try something new, something, say, new and risky, it helps to get them in a good mood.

I want to show you a television ad that I think, really, the whole purpose of it was to get people in a good mood. Watch out. What do we have? Severe abdominal pain. BP! 120/60! Is he on any medication? None. Doctor, I think you should see this. Oh, my. What, what is it? He's got money coming out the wazoo. What do we have? Money out the wazoo. Move this man to a private room. Outta the way, this man's got money coming out the wazoo! Does your husband have insurance? Insurance? He's got money coming out of the wazoo. Oh.

As far as I can tell, the main point of that ad is just to get you in a good mood. I gave a talk in Berlin several years ago, and I showed this ad in my talk. And before I gave the talk I went through it with the simultaneous interpreters that were going to be interpreting in my talk. And after I showed them this video I went back to their soundproof room. And these two young women were frantically going through seven big dictionaries, and one of them turned to me and said, (GERMAN ACCENT) "Vat is the vazoo?" All right, this next ad basically is a theme of, opportunities may rise at any moment.

At Gene Enterprises, we've harnessed the power of the human gene. So you can say goodbye to your allergies forever with new Nozulla. Nozulla may cause the following symptoms: itchy rashes, full-body hair loss, projectile vomiting, gigantic eyeball, the condition known as hot dog fingers, children born with the head of a golden retriever, seeing the dead, bone liquefaction, possession by the Prince of Darkness, tail growth, elderly pregnancy, back-- [WHOOSH]

Yep. You can be sitting on the couch, in the dark, watching the tube, but you should be ready to trade. So perhaps the most common theme in many of the ads, especially from online brokers, is that anyone can do it. Here's one that says a chimp beats the Wall Street wizard for the second straight year. So what you worried about? Here's another one. It says, when we say anyone can invest online, we mean anybody. Now take a good look at him. I think you're about to meet his cousin.

Do you read Barron's? Oh, yeah. All the time. Huh. That's the one where they rate all the online brokers. I use Discover Brokerage. They've been Barron's top pick for, like, the last three years. You, ah, you invest online? Oh, yeah. Big time. Well, the last few years, anyway. I'm retired now. You're retired? Oh, I don't need to do this, I just, you know, like helping people. Vacation spot? Actually, it's a picture of my house. That's, ah, that's an island. Well, technically it's a country.

So what's going on in this ad? Well, there's a guy in a suit and tie whose BMW is broken down in the middle of nowhere, and a nice truck driver picks him up, a tow truck driver, and he's towing him in. The truck driver mentions that he trades, the businessman is a little bit skeptical. Turns out, the truck driver has made enough money trading stocks that he's bought his own island, technically a country. Now, it's true. You don't need a suit to trade. But tow truck drivers who trade online don't buy islands. The next ad, some of you may recognize this guy.

Stuart, can I see you in my office, please? That kid is sick. Very sick. Stuart, get in here. Sure thing, Mr. P. Stuart, I just opened my Ameritrade account. Let's light this candle. Let's go to ameritrade.com. It's easier than falling in love. What do you feel like buying today, Mr. P? Kmart. So research it. All this stuff is provided for you free of charge. No cost. Yeah. That's synonymous with free. Looks like a good stock. Let's buy! Let's buy 100 shares. All right, click it in there! How about 500? 100, Stuart. [SQUAWKS LIKE CHICKEN] You feel the excitement? You're about to buy a stock online. Oh! Fabulous! I'm thrilled. What did that cost me? \$8, my man. \$8? \$8. You're riding the wave of the future, my man. [LAUGHS] I gotta get some soda. I'm sorry, Mr. P. I'm having a party on Saturday night, if you really want to go. I'm going to try and get there. Happy trading. Thank you. Rock on. All right, Stuart.

There's a lot going on here. We find out that online trading is as easy as falling in love. Mr P. is thrilled. He gets invited to a rave. He's thinking of going to the rave. But what I found interesting in this ad is that Mr P. does some research. Now, he doesn't do much research, but he does a little bit of research. Do you remember what Mr P. decided to buy? Kmart. Now let's take a look. See the arrow here? That's where Kmart was the day that this ad came out. A couple years later, Kmart filed for bankruptcy, and all the original shareholders, including Mr P., lost their money. So Mr P.'s probably happy that he didn't let Stuart talk him into buying 500 shares. While most of these television commercials are from the late 90s, today's ads have many of the same messages. Television viewers today continue to be told that when it comes to investing, anyone can do it.

You may have already met this young investor. A lot of people are like, aren't you too young to invest in the markets? And, you know, A, don't worry about it, you know? I just look young. I mean, you don't know how old I am. And B, I use E\*TRADE. So check it. Click. I just bought stock. You just saw me buy stock. No big deal. I mean, If I can do it, you can do-- [HICCUP] [BURP] Whoa.

Yes, the best recognized investor in the US today isn't a truck driver who bought an island, or even this man. It's a baby in diapers. So what should investors do? Well, you should invest for the long run. Invest for retirement. Invest for your children's education. Invest to buy a home. You should buy and hold. Don't trade actively. Hold a well-diversified portfolio. Pay attention to taxes and pay attention to fees. Now for most people there's a simple way to do this. Buy and hold a well-diversified low-cost index fund. Either open-ended mutual funds or exchange-traded funds are good choices. Thank you.