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WHY INVEST? AND WHY INVESTING WORKS

> *Investing isn't about* getting *rich, it's about being free.*

Why invest? What a strange question. I mean, the answer is obvious, right?

Except, is it? Really?

For most of us, the instinctive answer will be 'to have more money'.

But why?

Sure, more money is better than less, all things considered. But the thing about investing is that to have more money later, you need to spend less now.

Yep, you want more money, but you have to spend less to get it.

And then there's the question of how much more.

Maybe just 'as much as possible' or $1 million or 'enough to buy that car/house/boat'.

Now, it's true that you don't need to be able to answer that question to make full use of this book. You can just follow the steps in the One-Page Investing Plan with as little as $1 or with a portfolio of $10 million.

So, why am I starting here?

Because, as you'll find out, investing well isn't about what you know. It's about your ability to do the simple things well, and continue to do them for months, years and decades.

It's not a test of intellect, but a test of temperament, with just a little maths thrown in.

As Warren Buffett, the brilliant investor and former CEO of investment company Berkshire Hathaway said: 'Once you have ordinary intelligence, what you need is the temperament to control the urges that get other people into trouble in investing.'[2]

We'll cover some of those urges (and their treatments) later on, but the first temperamental challenge is foundational.

As author Morgan Housel wrote, 'When most people say they want to be a millionaire, what they might actually mean is "I'd like to spend a million dollars." And that is literally the opposite of being a millionaire.'[3]

Here's my 'why'

Let me share my 'why' with you. I invest for these reasons, in rough order of both importance and chronology:

1. As a financial cushion, if life throws me a curveball
2. To give me choice of whether, when and how to work
3. To be able to enjoy my current standard of living in retirement
4. To be able to help my kids, if and when they need it
5. To use my accumulated wealth to give charitably and leave an inheritance for my kids.

(In case you're wondering, I've sorted number one and working on number two!)

They don't need to be sequential, and yours will be different to mine, but that's my investing 'why'.

As to why it's important to me to have that list, it comes down to a few things.

First, it helps me visualise the outcome, even though it's decades away, which keeps me motivated when the market falls, my portfolio is volatile or when I'd really rather buy that new gadget than invest the money.

(What's 'the market'? It's just another way of saying 'all of the companies listed on the ASX as a group'.)

Second, it lets me sense check my progress. Or, more simply, I can work out whether my current savings rate will get me to where I want to go, and I can adjust accordingly.

Last, and this might sound strange, particularly if you're young, but it helps me know when to stop. Many Australians will die with more money than they had when they retired! Now, that's a pretty good problem to have, but how many of those people could have had a better standard of living in retirement (or could have retired earlier) if they'd been confident that their money would last?

As it happens, I love my job, and I work for a company that values flexibility and work-life balance. But what if that wasn't the case? What if my needs and desires change?

I might want to work part-time. Or retire early. I might wake up one day gripped by the desire to spend a year travelling around the country, or to become a llama farmer.

Okay, I'd be the worst llama farmer (I see more than just a little of myself in Jeremy Clarkson in *Clarkson's Farm*!), but my point is that, for me, investing is about security, freedom and generosity.

Like everyone, I can tend to default to 'more' when I think about how much money I'd need to fulfil those goals. And the idea of just stopping and letting go is still a bit scary but I'm getting there.

My wife and I have worked out roughly what our 'number' is. Not that we intend to do anything drastic when we get there, but that'll be the point at which we can exhale, knowing we have enough.

That'll be the point at which we can move through numbers two and three, and put more time and effort into four and five (though we hope the inheritance is more than a few years away from being bestowed!).

We know that, should the worst happen, or even just something bad, we'll be okay.

We're looking forward to the extra freedom and option of knowing we can pay the bills using the cash coming from our investments. And to being a force for good for our kids and others when the opportunity arises.

Investing isn't about getting rich.

It's about being free.

Your 'why' is what will keep you following the plan when markets fall and headlines scream.

So that's my 'why'.

What's your 'why'?

Before you answer, let me share a little something that car maker Toyota learned years ago that might help.

Toyota's founder, Sakichi Toyoda, instituted an idea that came to be known as the 5 Whys. The man who created the company's famous 'just in time' production system described the 5 Whys this way:

> *The basis of Toyota's scientific approach is to ask 'why' five times whenever we find a problem. By repeating 'why' five* times*, the nature of the problem as well as its solution becomes clear.*[4]

Though simple (and some criticise it as simplistic) in its approach, the benefit is that it stops us from stopping at the first, sometimes superficial, answer. Let me share an only slightly fictional example:

1. Why am I not at an ideal weight? Because I ate the chocolate.
2. Why did you eat the chocolate? Because it was in the cupboard when I was hungry.
3. Why was it in the cupboard? Because I was tempted when I was at the supermarket.
4. Why were you tempted? Because I went shopping when I was hungry.
5. Why did you go shopping hungry? Because I hadn't planned ahead.

Now, it doesn't mean that the only reason I'm not at an ideal weight is because I didn't plan ahead, or that planning ahead would have been a guarantee… but it helps me understand the chain of events and identify some sort of root cause.

And, in my case at least, it stops me justifying myself with a convenient excuse!

Whether in business or in front of a pantry when you're hungry, the 5 Whys is a useful tool to bring out whenever you really want to understand why something happens.

What's that got to do with investing? Well, I hope it'll help you really bear down on your underpinning 'why'.

I hope it might help you work out what you *really* want so you can set your own goals.

Maybe your 'why' isn't five questions deep, but I hope it'll help you get past the instinctive answer of 'to have more money' or 'to stop work'.

With any luck, it'll prompt you to think about what you really want, deep down, that underpins those initial answers.

And once you find it, I hope it'll help you crystallise your investing goals.

Now, let's turn our attention to why and how investing can get you there.

Why investing works

'Whoa there, big fella. You can't just tell me why it works. You have to show me that it works in the first place!'

You're right, dear reader. And both of those things — that it works and why it works — are intertwined.

So let's put the horses back in front of the cart, shall we.

In fact, before we let the horses out of the stable, can we be *sure* investing will work?

I hope you're ready for an uncomfortable truth, because the answer is 'no'. Other than death, nothing can be predicted with absolute certainty. No, not even taxes.

There's a pretty good chance the sun will rise tomorrow. But we could be hit by an almighty asteroid tonight.

There are no guarantees in investing.

History suggests that productive businesses, over time, have created extraordinary wealth.

That's good enough for me.

So I invest. And I expect investing will deliver very good long-term returns.

I could choose not to, of course. I could spend everything, and hope that I die early or discover I'm a beneficiary of the will of a hitherto unknown elderly relative. The former isn't something we should wish for, and the latter is remarkably unlikely.

I could just save in cash … and let inflation destroy my purchasing power over time.

Or I could look at history, and ask myself if I think it's likely that the forces that shaped more than a decade of stock market returns are likely still in force.

Let's take each in turn: the returns and then the 'why' (there's that word again).

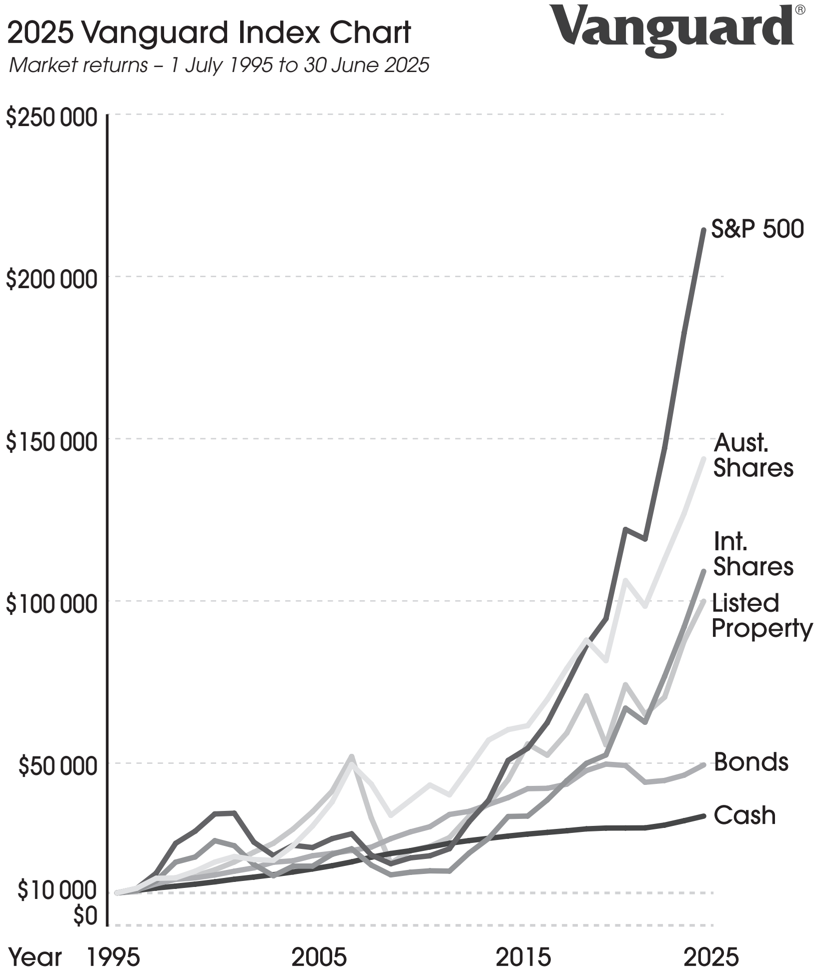
My single favourite picture in all of investing isn't a photo of a $100 note, or that golden charging bull that seems to be in every second investing story online. It's a chart, updated once a year, by fund manager Vanguard, showing the journey of a hypothetical $10 000 investment over the preceding 30 years (see figure 1.1, overleaf).

When you zoom right in, you see volatility. Ups and downs. Recessions. Wars. Pandemics. Terrorism. Fear. Euphoria.

When you zoom right out? You see a market that, despite all of that volatility, creates extraordinary wealth.

The most recent one, at the time of writing, finished in June 2025. It showed that in the prior 30 years, that hypothetical $10 000 gained 9.3 per cent per annum.

And what does ten grand become over that time, at that rate of return?



Source: Vanguard 2025 Index Chart.
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Data supplied by Andex Charts Pty Ltd For more information and assumptions, visit https://www.vanguard.com.au/personal/support/index-chart
Growth of $10 000 with no acquisition costs or taxes and all income reinvested.
Past performance information is given for illustrative purposes only and should not be relied upon as, and is not, an indication of future performance.

Figure 1.1 2025 Vanguard Index chart,[5] 1 July 1995–30 June 2025

A cool $143 786.

That's a 14-fold gain. Or, if you prefer, a pre-tax profit of $133 786.

For doing what?

Nothing.

Literally, precisely and only … nothing.

Maybe that's a rogue 30 years, right?

No.

I've been doing this for a while, and the 30-year return has always been around that order of magnitude (with obvious variation) for as long as I can recall.

But what about before that? I'm glad you asked.

Different analysis, this time from UBS, shows that Australian shares have returned a real (that is, adjusted for inflation) return of 6.4 per cent per annum since 1900. Inflation has been around 3.9 per cent per annum (on average) since 1923 (official data doesn't go back further than that), adding the two together, we get a *rough* 10.3 per cent per annum before inflation.

(A 'share', by the way, is just a tiny slice of a real business. If you own shares in Woolies, you own a tiny slice of it — its assets, revenues and profits.)

In other words, over a century-and-a-quarter, the Australian share market has probably compounded at around 10 per cent per year.

Now, few of us will have investing horizons that long, but imagine your great, great, great grandfather had invested the equivalent of $100 in the ASX's predecessor back then.

Are you ready?

You'd have a portfolio worth $14.9 million.

And remember, in both of those examples, that's an initial investment and not a single dollar more. In the vast, vast bulk of cases, the investor (and their kids and grandkids in the latter example) would have continued to add to their portfolios, creating extraordinary wealth in the process.

Now we get to the 'why' — and also why I can't promise it'll continue, but I'm investing on the expectation that it will.

First: time.

Well, duh. But, seriously, time did almost all of the heavy lifting. Not 'stock picking', not buying and selling. Just buying and … waiting.

Second, the stock market tends to be the place you find almost all of the biggest and best companies in the country. (What do we mean by 'biggest'? You can look at it a few ways: by sales, by profit or by the combined value of all of the shares of the company. The latter is the one usually used.) Now there are some great private businesses, and not all companies on the stock market are 'best' … some are downright awful. But, as a group, they tend to be the companies that survive and thrive, and that grow faster than their peers, delivering above-average returns.

And third (and most importantly for our long-term objective here), humans are pretty cool. No, not 'hipster cool'. No, not even 'dad cool' (my youngest reckons there's no such thing and I suspect he's right). We're cool in the sense that we're really good at finding new solutions to new and old problems.

We've come a long way, and we're not done yet

Humans have a history of innovation, which is nothing short of incredible. I don't know if we were already using tools before or after we took a new evolutionary branch away from the monkeys, but tools have been with us pretty much since the beginning. Then to the wheel, mastery of fire and right up to the internet and AI — we are inquisitive, clever and pretty dogged as a species.

Look around you right now. Unless you're in the middle of virgin bush with no signs of human existence, you're looking at the result of innovation. And not just a single innovation, but the result of many, many, many innovations stacked one on top of the other.

And, to return to our previous point, we tend to create extraordinary value for society and for the companies that provide those innovations.

Now, you can take the view that we've arrived at peak human ingenuity. In that worldview, the middle of the 2020s turns out to be as good as it gets, and it's all downhill from there. But if you have that view, can I suggest, gently, that you're probably misunderstanding both history and human nature.

No, I don't think humanity is done — not by a long shot. I mean, just think of the biggest seven companies on the US stock market at the time of writing. Alphabetically (no pun intended):

- Alphabet: Google's parent company, owns YouTube, only exists because of the internet
- Amazon: Retail behemoth, originally a bookshop, out Walmarted Walmart
- Apple: Born in the 1970s, almost died in the 1980s, redefined smartphones
- Meta: The holding company for Facebook … and Instagram … and WhatsApp
- Microsoft: Like Apple, born in the 1970s, smashed by the dot.com crash, now a cloud computing giant
- Nvidia: Invented the chips that ran games, then Bitcoin miners, now powers AI
- Tesla: Single-handedly drove the uptake of electric vehicles (EVs).

Of those, only Microsoft was even close to the rarified air of the biggest companies in the world 20 years ago.

And 20 years ago, people might have said that innovation was dead and human ingenuity was at its peak. The lesson? Humans are impressive. We've got a long way to go, I reckon.

And the lesson I take as an investor?

If the future remains bright, and stock markets remain the place some of the biggest and best companies can be found, I reckon the future for long-term investment returns is pretty bright.

That, in my opinion, is why investing works.

And why putting a little bit of money away now for the potential of a lot more in the future is well worth the sacrifice.

But before you can build wealth, you have to dismantle the beliefs that quietly stop you from even starting.

What really matters

- Investing isn't about 'having more money', it's about what that money allows you to do: security, choice, generosity and freedom.
- Knowing your personal 'why' helps you stay invested when markets fall or life tempts you to spend instead of save.
- Over long periods, productive businesses have historically created extraordinary wealth, even through crises and uncertainty.