

# Your Split-Brain Investing Plan

In today's stock market, you need protection.

From yourself.

You remember the insanity of the 1990s dot-com era. You believe the experts who say that excessive optimism is investors' No. 1 problem. You agree it is better to use a logical, unemotional investment strategy rather than a positive-thinking, happy-go-lucky strategy.

All this is fine until you go to a neighbor's party. A well-dressed fellow whispers in your ear that International Whiz Bang is the next big thing. You can't resist. You take a flier on 1,000 shares. That's irrational.

You need protection with my "split-brain/two-portfolio" strategy.

Remember the two-hemisphere brain from your high-school psych class? We actually have many "brains" or personalities, including a Happy Investor "brain" and an Irrational Investor "brain." Each wants a separate portfolio.

## Change of Heart

For a long time I, too, was dogmatic about investing: Buy-and-hold was good. Active trading was bad.

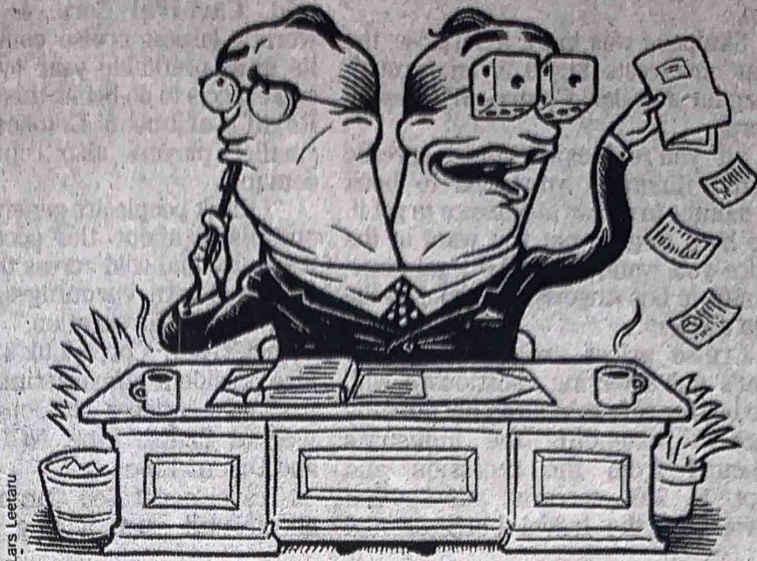
One portfolio was enough. You could avoid acting irrational by putting all your money in what I called a "Lazy Portfolio," a simple well-diversified portfolio of low-cost, no-load index funds.

One simple Lazy Portfolio I've been tracking for years was created by money manager and neurologist William Bernstein, author of "The Intelligent Asset Allocator" and "The Four Pillars of Investing." He puts 25% into each of four index funds from Vanguard Group in Malvern, Pa., namely the **Standard & Poor's 500 (VFINX)**, **Total Bond Market (VBMFX)**, **Small-Cap Index (NAESX)** and **European Stock Index (VEURX)**. The portfolio's return was about 14% last year.

## The Lure of Las Vegas

But I was missing something. In the real world many investors, even conservative buy-and-hold investors, still love playing the market. It's entertainment, like a trip to Las Vegas—even when they lose money!

This fact hit home a few years ago when I was interviewing Daniel Leemon, then at Charles



Schwab as chief investment officer. He explained the shock he felt during one focus group of mutual-fund investors: "They all had 90% of their money in mutual funds. They put a little bit in every month. And they never thought about that 90%, and never looked at it. But with the other 10%, they were playing high-tech stocks. And that was the stuff they talked about because that was the fun part!"

## Two Minds

Since then I've asked a lot of Main Street investors, portfolio managers and even hyperactive commodity traders about this. They say the split-brain/two-portfolio strategy is very common. And it makes sense.

Here's how it works: You simply partition your "brain" into two parts that can't even talk to each other.

Each "brain" has its own portfolio and invests with a different set of investment criteria.

I call them the Untouchable Portfolio (which gets 90% of your money) and the Mad Money Portfolio (10%).

## Untouchable Portfolio

This one gets 90%. Imagine this one safely locked in a bank vault, compounding for retirement. You can't touch it without three signatures: Yours, a tough-minded investment adviser and your grandmother in Omaha.

That way the 90% is protected from aggressive risk-taking and in-

vested in securities for the long haul, preferably a Lazy Portfolio.

## Mad Money Portfolio

This 10% is for whatever turns you on; day trading, high-tech IPOs, emerging markets, commodity shorts. Even lottery tickets and Las Vegas slots. Mad Money is for fun investing, to satisfy the free spirit in you. It's also money you can afford to lose if your bets go sour. When it's gone, it is gone.

Now, here's my best-kept secret. Here's how you can keep your Irrational Investor from wasting the 10% and sabotaging your retirement. If you really want to be a successful investor, use your Mad Money portfolio to educate yourself about the way the market really works. Learn to use tools that'll help you strengthen your rational, do-it-yourself brain. Discover how to become a successful investor.

Here's one suggestion: Set up a mock portfolio online. Use "Investor Tools" at [www.marketwatch.com](http://www.marketwatch.com), or some other financial site. Pick 20 to 30 securities. Different types. Research each. Monitor their performance daily for a few months. Follow them in the news. Know when to sell, or buy more. Take the time to teach yourself how to become a happy investor.

Later, if you don't like the results or the time it takes, you can still retire a happy millionaire. How? Save 100% of your money in a lazy Untouchable Portfolio.

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