Tony Robbins Shatters Investing Myths

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Whether you are a seasoned investor or just beginning to see yourself as an investor, the investing jungle holds the same dangers for all of us.

Tony Robbins, life coach and author of the new book "MONEY Master the Game: 7 Simple Steps to Financial Freedom." Jeff Christensen / AP

But most of the danger lies in the fact that what you don't know CAN hurt you.

You have to know that there are a lot of people looking to take a piece of your wealth.

The system is riddled with loopholes — what I would call "landmines" — that can blow up your financial future.

So, to borrow a phrase from Donald Rumsfeld, here I want to reduce the number of things that you don't know you don't know by going through nine myths — you might call them lies — that have been marketed to you over the years.

If you aren't aware of these — if you don't see them coming — they will systematically destroy your financial future.

In the words of David Swensen, one of the most successful institutional investors of our time, to have unconventional success, you can't be guided by conventional wisdom.

Let's shatter the top nine financial myths that misguide the masses and, more importantly, uncover the new rules of money; the truths that will finally set you financially free.

Myth 1: Invest with us — we'll beat the market.

"The goal of the nonprofessional should not be to pick winners — neither he nor his 'helpers' can do that — but should rather be to own a cross section of businesses that in aggregate are bound to do well. A low-cost S&P 500 index fund will achieve this goal."

—Warren Buffett, 2013 letter to shareholders

From 1984 to 1998 — a full 15 years — only eight out of 200 fund managers beat the Vanguard 500 Index.

So instead of buying all the stocks individually, or trying to pick the next high-flying hotshot fund manager, you can diversify and own a piece of all 500 top stocks simply by investing in a low-cost index fund that tracks or mimics the index.

One single investment buys you a piece of the strength of "American Capitalism." In a way, you are buying into the fact that over the past hundred years, the top tier companies have always shown incredible resilience.

Fees aren't as insignificant as professionals would have you believe. Flickr / Nathan Congleton

Myth 2: Our fees? They're a small price to pay.

"The mutual fund industry is now the world's largest skimming operation, a $7 trillion trough from which fund managers, brokers, and other insiders are steadily siphoning off an excessive slice of the nation's household, college and retirement savings."

—Senator Peter Fitzgerald, cosponsor of the Mutual Fund Reform Act of 2004 (which was killed by the Senate Banking Committee)

In a Forbes article entitled "The Real Cost Of Owning A Mutual Fund," Ty Bernicke peels back the layers to dissect the actual cost and arrives at a heart stopping total: The average cost of owning a mutual fund is 3.17% per year!

If 3.17% doesn't sound like a big number to you, think of it in light of owning the market in the alternative. You can "own" the entire market (all 500 stocks in the S&P 500, for example) for less than 0.14% (or as the investment world calls it, 14 basis points). That's just 14 cents for every $100 you invest.

Below is the impact of fees on fictitious ending account balance:

Jason: $100,000 growing at 7% (minus 3% in annual fees) = $324,340Matthew: $100,000 growing at 7% (minus 2% in annual fees) = $432,194Taylor: $100,000 growing at 7% (minus 1% in annual fees) = $574,349

Same investment amount, same returns, and Taylor has nearly twice as much money as his friend Jason.

By simply removing expensive mutual funds from your life and replacing them with low-cost index funds, you will have made a major step in recouping up to 70% of your potential future nest egg

Myth 3: Our returns? What you see is what you get.

"Surprise, the returns reported by mutual funds aren't actually earned by investors."

—Jack Bogle, founder of Vanguard

Average returns are like online dating profile photos. They paint a better portrait than the reality. When the mutual fund advertises a specific return, it's never the return you actually earn. Why? Because the returns you see in the brochure are known as "Time Weighted Returns." Sounds complicated, but it's really not …

Time weighted returns assume that investors have ALL of their money in the fund the entire year and don't take any withdrawals.. But the reality is, we typically make contributions throughout the year (i.e. out of every paycheck into our 401(k)).

And if we contribute more during times of the year when the fund is performing well (a common theme we learned, as investors chase performance) and less during times when it's not performing, we are going to have a much different return than what is advertised.

Your broker might have your best interests at heart. Then again, he might not. Flickr / Marc Brüneke

Myth 4: I'm your broker, and I'm here to help.

"It is difficult to get a man to understand something, when his salary depends on his not understanding it."

—Upton Sinclair

Does the person with whom you trust to plan you and your family's future have every incentive to operate in your best interest? Most would think "yes," and most would be wrong.

The truth is the financial services industry has many caring people of the highest integrity who truly want to do what's in the best interest of their clients. Unfortunately, many are operating in a "closed circuit" environment in which the tools at their disposal are "preengineered" to be in the best interests of the "house." The system is design to reward them for selling, not providing

"conflict-free" advice. And the product or fund they sell you doesn't necessarily have to be the best available, or even in your best interest. By legal definition, all they have to do is provide you with a product that is "suitable."

To receive "conflict-free" advice, we must align ourselves with a fiduciary. A fiduciary is a legal standard adopted by a relatively small but growing segment of independent financial professionals who have abandoned their big box firms, relinquished their broker status and made the decision to become a registered investment advisor. These professionals get paid for financial advice and, by law, must remove any potential conflicts of interest (or at a minimum disclose them) and put the client needs above their own.

Myth 5: Your retirement is just a 401(k) away.

"Baby Boomers have been the primary mice used in the great 401(k) retirement experiment."

—Doug Warren, author of The Synergy Effect

The so-called "choices" on your 401(k) plan are not the best available choices. They are the ones who pay the most to be offered up on the menu of available funds. And guess how they recoup their cost to be on the list? High fees, of course. So not only are you failing to get the best performing funds, but also you are typically paying higher fees for inferior performance.

You want to make absolutely sure that your 401(k) has the lowest possible fees and low-cost index funds.

Target-date funds, while convenient, aren't very lucrative. David Tan

Myth 6: Target-date funds: just set it and forget it.

"I am increasingly nervous about target-date funds with each passing day."

—Jack Bogle, founder of investor-owned Vanguard

Despite being the fastest growing segment of the mutual fund industry, target-date funds (TDFs) may completely miss the mark.

So what are you really buying with a TDF? You are simply buying into a fund that handles your asset allocation for you. It's as simple as that. Instead of picking from the list of fund options, you buy one fund and — voila! — it's "all handled for you."

Unfortunately, according to Marketwatch, "the most conservative target-date retirement funds — those designed to produce income — fell on average 17% in 2008 and the riskiest target date retirement funds — designed for those retiring in 2055 — fell on average a whopping 39.8%, according to a recent report from Ibbotson Associates."

Myth 7: I hate annuities, and you should, too.

"I cannot imagine a personal financial situation where I'd recommend a VA [variable annuity] as a good idea."

—Actuary John Biggs, former chair of TIAA-CREF pension funds

The common mantra on Wall Street is that annuities are a bad idea, unless of course you are buying one packed with mutual funds, which are the primary annuities sold in the big brokerage houses. These are called variable annuities.

Most variable annuities guarantee that even if the account goes down, your beneficiaries will receive at least the total amount you originally invested. So if you put in $100,000 and the mutual funds drop in value to $20,000, your children would still get $100,000 when you die. That doesn't sound like such a bad deal until you realize that you just bought the most expensive form of life insurance available.

When you buy a variable annuity, not only are you paying the incredibly expensive mutual fund fees, but you also have additional fees paid to the insurance company. There is a "mortality expense," which according to Morningstar averages 1.34% per year, as well as administrative charges that can run somewhere between 0.10% and 0.50% per year. Ouch!

But are ALL annuities bad? After all, variable annuities are just one type. Many of the experts I spoke with actually like the more traditional income annuities. In fact, they were quick to point out that everyone, even the critics, have an annuity. Its called Social Security! You pay in and you get a guaranteed lifetime income stream.

Many of the economists I met with are thrilled with the rising popularity of "longevity insurance" which is an annuity that requires a relatively small deposit today and will kick on later in life (say age 80), so that you don't have to worry about "living too long" and you can plan to make your money last for a set period of time.

So which is it? Are annuities the best thing since sliced bread or just a deal that is good for the insurance company and brokers selling them? The answer? It really depends on the type of annuity you own and the fees the insurance company will charge you.

Risky investments aren't the only ones that are worthwhile. Andreas Rentz/Getty Images

Myth 8: You gotta take huge risks to get big rewards.

"An investment operation is one which, upon thorough analysis, promises safety of principal and an adequate return. Operations not meeting these requirements are speculative."

—Benjamin Graham, The Intelligent Investor

Whether it's the world's top hedge fund traders like Ray Dalio and Paul Tudor Jones or entrepreneurs like Salesforce founder Marc Benioff and Richard Branson of Virgin; without exception, these billionaire "insiders" look for opportunities that provide asymmetrical risk/reward. This is a fancy way of saying that the reward is drastically disproportionate to the risk.

Now, you might be thinking, "Well that's great for investors who have millions or even billions just to 'throw around,' but how does that apply to me? Surely it can't be possible for normal investors to have upside without the downside — to have a protection of principal with major upside potential." Think again.

The same level of financial creativity that has propelled High Frequency Trading from nonexistent into a dominant force in just ten years has touched other areas of finance as well. Following the 2008 crash, when people didn't have much of an appetite for stocks, some very innovative minds at the world's largest banks figured out a way to do the seemingly impossible … allow you and me to participate in the gains of the stock market without risking any of our principal!

Before you write this notion off as crazy, I personally have an investment, issued and backed by one of the world's largest banks, that gives me 100% principal protection, and if the market goes up, I get to keep a significant chunk of the gains in the market (without dividends). But if the market collapses, I get all my money back. I don't know about you, but I am more than happy to give up a percentage of the upside in exchange for protecting myself from stomach wrenching losses on a portion of my investment portfolio.

Banks aren't the only institutions that give you the ability to participate when the market goes and avoid losses when the market falls. Insurance companies do the same within annuity and certain life insurance products.

My point in sharing this information is because we have come to a point in the United States where most of us feel that the only option for us to grow our wealth, involves taking huge risks. That our only available option is to "white knuckle" it through the rolling waves of the stock market. And we somehow take solace in the fact that everyone is in the same boat. Well, guess what? It's not true! Not everyone is in the same boat!

Don't let yourself stand in the way of wealth. Flickr / tokyoform

Myth 9: The lies we tell ourselves

"Seek truth and you will find a path."

—Frank Slaughter

Here's the truth — the ultimate thing that stops most of us from making significant progress in our lives is not somebody else's limitations — but rather our own limiting perceptions or beliefs.

Everybody has a fear of failure at some level: at times we've all been fearful that perhaps we are not enough. Even when we know what to do, our fear can keep us from executing our plans. As a result, rather than face our natural fears, what do we do? We come up with "stories." Stories about why we're not where we want to be. Why we're not smart enough, successful enough, thin enough, rich enough, loved or loving enough.

Our stories almost always relate to something outside our control, or our lack of some natural talent or ability. But talent and skill are two key elements to success attainable by anyone who is truly committed. You can develop the skill if you can get beyond the mental limits of how hard,

difficult, or "impossible" it may seem to master something.

It's time to no longer be one of the many, but to become one of the few. One of the few who step up, own your true capability financially, and in every area of your life. Most people start out with high aspirations but settle for a life and lifestyle far beneath their true capabilities. They let disappointments destroy them.

Disappointment is inevitable when you are attempting to do anything of great scale. Instead, let your disappointments drive you to find new answers; discipline your disappointments. Learn from every failure, act on those learnings; and success becomes inevitable. Even in finance. Especially so.

Tony Robbins has helped more than 50 million people from more than 100 countries transform their lives and their businesses through his books, audio programs, health products, live events, and personal coaching. His first book in over 20 years, "MONEY Master the Game: 7 Simple Steps to Financial Freedom," is out November 18th.