



The Three Commandments

*What You Should Inscribe
Upon the Stone Tablets
of Your Portfolio*

THERE ARE THREE CENTRAL RULES for keeping your money safe. We will come back to them again and again throughout this book. I call these rules the Three Commandments; they are simple but universal enough to cover virtually every challenge you will face in managing your money.

(That's why there are only three, instead of ten.) If you obey them, you will have a purer investing heart—and better results—than many professional investment managers, who stray constantly from the true path of righteous safety.

I will express the Three Commandments in Biblical language, because they are that important.

All the rest is commentary.

The First Commandment

Thou shalt take no risk that thou needst not take.

Always ask yourself: Is this risk necessary? Are there safer alternatives that can accomplish the same objective? Have I studied the pros and cons of each before settling on this choice as the single best way to achieve my goal?

Unless you ask, do not invest.

The Second Commandment

Thou shalt take no risk that is not most certain to reward thee for taking it.

Always ask yourself: How do I know this risk will be rewarded?

“Most certain to reward thee” does not mean that there is zero chance that you will not be rewarded. It does mean, and must mean, that you are *highly likely* to be rewarded. What is the historical evidence, based on the real experience of other investors, to suggest that this approach will actually succeed? During the periods in the past when it hasn’t worked—and every investment in history has gone through such dry spells, regardless of what the hypesters might tell you—how big were the losses?

Unless you ask, do not invest.

The Third Commandment

Thou shalt put no money at risk that thou canst
not afford to lose.

Always ask yourself: Can I stand to lose 100 percent of this money? Have I analyzed not merely how much I will gain if I am right, but how much I can lose and how I will overcome those losses if I turn out to be wrong? Will my other assets and income be sufficient to sustain me if this investment wipes me out? If I lose every penny I put into this idea, can I recover from the damage?

Unless you ask, do not invest.

Safe Bets

- Never invest without thinking twice and consulting the Three Commandments.
- Answer the questions that accompany the Three Commandments above whenever you invest; they will help you shape an *investment policy*, telling you not only where to put your money but why.