

Armed With An Index Fund, Warren Buffett Is On Track To Win Hedge Fund Bet

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By [Jacob Goldstein](#)

Eight years ago, Warren Buffett made a \$1 million bet with some hedge fund managers. We learn what the bet tells us about one of the most important questions in investing.

STEVE INSKEEP, HOST:

Now we have the story of a \$1 million bet. It's over one of the biggest questions in investing. And it involves one of the biggest names in business. If you have any money invested in the stock market, you have taken a side in this bet, whether you know it or not. Jacob Goldstein of NPR's Planet Money podcast reports.

JACOB GOLDSTEIN, BYLINE: On one side of the bet, Warren Buffett, third richest person on the planet. Back in 2006, Buffett was speaking in front of an audience of thousands of people when the subject of hedge funds came up. Hedge funds are not open to ordinary investors, and they're often seen as elite. But, Buffett said, most hedge funds just are not worth the fees they charge. In fact, he said, I'm willing to make a bet. I can pick a simple, boring investment that will beat any bunch of big hedge funds. Ted Seides works in the hedge fund world. He and his partners decided to accept Buffett's challenge.

(SOUNDBITE OF ARCHIVED RECORDING)

TED SEIDES: I thought I had a rare chance to catch somebody like Warren potentially being the patsy at the poker table.

GOLDSTEIN: I'm sorry. You said to catch him being what?

SEIDES: The patsy at the poker table.

GOLDSTEIN: The \$1 million bet started on January 1, 2008. The winner will be the side whose investments grow the most by December 31, 2017. The money will go to a charity of the winner's choice. The bet gets at this really big long-standing question in investing. Is it possible to predict which investments are likely to do better than the market as a whole? Or, are people who beat the market just getting lucky? Ted Seides and his partners bet on beating the market. They carefully selected a bunch of hedge funds. Buffett bet against beating the market. For his side of the bet, he picked an index fund. The index fund is super simple. It just tries to match the performance of big U.S. stocks. So if the stock market goes up, the index fund goes up. Stock market goes down, fund goes down. John Bogle, the man who invented the index fund back in the '70s, says it was designed to be dull.

JOHN BOGLE: If you're in investing for excitement, you are a damn fool. You're watching the market every day - up and down, 100-point - 200, 300, 400-point swings, day after day. It's exciting, but it's meaningless.

GOLDSTEIN: What matters, Bogle says, is how investors do over the long run. And over the long run, almost no one beats the market. So where do things stand with that bet? The hedge funds are up 22 percent, but the index fund Buffett bet on is up much more - 66 percent. Even Ted Seides who bet on the hedge fund says he is likely to lose the bet. My colleague David Kestenbaum asked him about this.

DAVID KESTENBAUM: Are you bummed about probably having lost this best?

SEIDES: A little bit. Sure.

KESTENBAUM: Yeah, you had a chance to beat Warren Buffett.

SEIDES: Yeah - with the odds in my favor. And it didn't play out the way I thought it would.

KESTENBAUM: You thought the odds were in your favor.

SEIDES: (Laughter) I still think the odds were in my favor.

GOLDSTEIN: Seides says he would take the bet again if he could. He thinks it's a fluke that the stock market - and, with it, the index fund - has done as well as it has over the past 8 years.

KESTENBAUM: Isn't it also possible that it is just very, very hard to beat the market?

SEIDES: Oh, it's not possible. That's a truth.

KESTENBAUM: What's your advice to ordinary people who do not have a lot of money but want to put some of the money in the stock market?

SEIDES: I think they should index.

KESTENBAUM: (Laughter).

GOLDSTEIN: Seides says there are some people who can do better than the stock market over the long run, but it is very, very hard to find them. One big reason - people who beat the market in the past are not especially likely to beat it in the future. Warren Buffett, who is one of the most famous investors of all time, seems to share this view. Almost all of the money he's leaving to his wife in his will is to be invested in an index fund. Jacob Goldstein, NPR News.

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