

Buffett bet \$1 million on an index fund. The professionals lost

Published by OneRightAI · 5 min read

Maxim: *For most investors, a low-cost index fund is the answer.* — Warren Buffett's advice, in substance, across his shareholder letters

The world's most famous stock picker told his own family not to pick stocks. Then he proved the point with a ten-year wager.

For most people, the surest way to beat professional investors is to stop paying them to try.

Warren Buffett once made a public bet. Over the ten years from 2008 to 2017, he wagered, a plain S&P 500 index fund would beat a portfolio of hedge funds chosen by professionals, after all fees. Protégé Partners, a firm that invested in hedge funds for a living, took the other side and picked five funds of hedge funds, each holding stakes in many hedge funds. It was the best that money and expertise could assemble against a fund that simply bought the whole market.

The result, reported in Berkshire Hathaway's [2017 letter](#), was not close. The index fund gained 125.8% over the decade, an average of 8.5% a year. The five funds of funds gained between 2.8% and 87.7%. In every one of the nine years after the first, Buffett wrote, the funds of funds as a whole trailed the index fund. The prize went to Girls Inc. of Omaha, which received \$2,222,279.

The managers had every professional advantage. They were simply competing against the market after charging for the attempt.

What he told his own family

Buffett had already said what he believed, in plainer words. In his 2013 letter, he described the instructions in his will for the money he would leave his wife. "Put 10% of the cash in short-term government bonds and 90% in a very low-cost S&P 500 index fund," he told the trustee, adding in brackets that he suggested Vanguard's ([Berkshire Hathaway](#)).

His reasoning was aimed squarely at ordinary investors. The goal of the non-professional, he wrote, should not be to pick winners, because neither he nor his "helpers" can do that, but to own a cross-section of businesses that in aggregate are bound to do well. A "know-nothing" investor who both diversifies and keeps costs minimal, he added, is virtually certain to get satisfactory results.

The word that does the work is cost. In the bet, the funds of funds carried fixed fees averaging, in Buffett's words, "a staggering 2½% of assets or so" every year, before any share of profits. His summary is worth memorising: "Performance comes, performance goes. Fees never falter." A manager has to be good enough to beat the market by more than he charges, every year, for decades. Very few manage it, and nobody can reliably tell you in advance who they will be.

What low-cost means in India

Indian investors have been moving Buffett's way. Passive funds, meaning index funds and ETFs, held about ₹1.41 lakh crore in April 2019 and about ₹15.15 lakh crore by July 2026, around 17.7% of open-

ended mutual fund assets, according to AMFI-based data compiled by [INDmoney](#). Passive folios reached 5.71 crore by March 2026, up 38% in a year, [Finnovate](#) reported from AMFI's monthly data.

The success has brought a new problem: choice. The number of passive schemes rose from 104 in 2019 to 721 by mid-2026, and index funds alone went from 50 to 375 in five years. Many track narrow sector, theme or factor indices. Those may be cheap to run, but they are not what Buffett meant. His advice was to own a broad cross-section of businesses, not to make a concentrated bet through an index wrapper.

Cost differences persist even among plain index funds. One Nifty 50 index fund's factsheet for August 2026 shows a base expense ratio of 0.24% for the direct plan and 0.55% for the regular plan, with a three-year tracking error of 0.13% ([Franklin Templeton](#)). The gap looks tiny. Over twenty years, it is not, and it buys you nothing extra: both plans own exactly the same shares.

The case is not airtight everywhere. Many fund managers argue that India's market is less efficient than America's, and in some segments, particularly smaller companies, active funds have at times had more room to add value. But for the core of a long-term portfolio, the logic of the bet holds here too.

Choosing the boring option well

Start broad. A Nifty 50, Sensex or wider large-and-mid-cap index fund is the closest Indian equivalent of Buffett's S&P 500 fund. Thematic, sector and factor indices can come later, if ever, and only as small satellites around that core.

Buy the direct plan, and compare costs between funds tracking the same index. Since every fund on the same index owns the same shares, the cheaper one with the smaller tracking difference is usually the better one. For ETFs, check that the units trade with enough volume that you can buy and sell close to their actual value.

Keep Buffett's other 10% in mind too. His instruction paired the index fund with short-term government bonds, money that would not fall with the market. Your mix will depend on your goals and age, but the idea is the same: a simple equity core plus a safe reserve.

Then leave it alone. The index fund's advantage is not just low cost. It is that it gives you nothing to tinker with, no manager to second-guess and no star to chase.

If you do one thing: Make a direct-plan broad-market index fund the core of your equity savings, compare its cost and tracking difference with peers once a year, and resist adding anything that cannot explain why it should beat that core after fees.

The know-nothing advantage

There is something liberating in Buffett's advice. It says you do not need to be clever, follow the news or find the next great manager. You need to own the market cheaply and stay put.

The professionals in his bet were neither lazy nor ignorant. They lost because the market itself is a formidable competitor, and because their fees were certain while their skill was not. For most investors, the humble index fund is not settling for average. Over long periods, it has left its owners ahead of most of the people paid to beat it.

Sources

- [Berkshire Hathaway: 2017 letter to shareholders \(the ten-year bet\)](#)
- [Berkshire Hathaway: 2013 letter to shareholders](#)
- [INDmoney: India now has 721 passive mutual fund schemes \(updated September 2026\)](#)
- [Finnovate: Passive funds in FY26, AUM and folio growth \(April 2026\)](#)
- [Franklin Templeton India: NSE Nifty 50 Index Fund factsheet \(31 August 2026\)](#)

The Virtual AI Author is an AI writer for OneRightAI.

Disclaimer

This article is published by OneRightAI for general information and investor education only. It was written by an AI author and may contain errors or omissions, and facts may have changed since publication. It is not investment, tax or legal advice, and it is not a recommendation or solicitation to buy, sell or hold any security, mutual fund, bond or commodity. Companies, funds and indices are mentioned only to illustrate concepts. OneRightAI is not registered with the Securities and Exchange Board of India (Sebi) as an investment adviser or research analyst. Investments in securities markets are subject to market risks; read all related documents carefully before investing. Past performance does not guarantee future returns. Consult a Sebi-registered investment adviser and a qualified tax professional before making any investment decision. OneRightAI and its authors accept no liability for any loss arising from the use of this information.

Credits and rights

Maxims and quotations are attributed to their original authors and are used for commentary and investor education; their use does not imply any affiliation with, or endorsement by, those authors or their publishers. Facts and data from third-party sources are summarised in our own words and credited with links; all copyrights and trademarks remain with their respective owners. OneRightAI is not responsible for the content of external websites.