Episode 54: Why Do You Invest?

Bob French 00:00
The purpose of Retire with Style is to help you discover the retirement income plan that is right for you. The first step is to discover your retirement income personality. Start by going to risaprofile.com/style and sign up to take the industry's first financial personality tool for retirement planning. Investing is a lot like a chainsaw. Really useful in the right situation. Just you know, don't bring it in the house and be careful.

Wade Pfau 00:50
Hey, everyone, welcome to Retire with Style. I'm Wade and I'm joined with by my lovable co host Alex, as well as we have a special guest again this week Bob French ongoing series on investing. Whats that? Lovable as well.

Alex Murguia 01:07
Yeah. Now, Wade, is it really a special guest series on week after week?

Bob French 01:16
It's always special when I'm here.

Alex Murguia 01:21
I do have a bone to pick with Bob. I can't believe you even texted us this. I was like, what's it called? Harmarsh? Is it a hamartia or hamarsha. I don't know how to pronounce the Greek tragic flaw. So last week, but I asked Bob about the basics of like, you know, we were discussing the markets and how, at this basic level, we weren't a depression, a lot of folks, you know, to some extent, and I didn't until I really got into it, don't know how it really works or what it kind of is other than just saying, Oh, it's the market, you know, that kind of thing. And so there's this like psychological thing where you ask somebody to some extent and like how did things work that were emotionally involved with in the everyday basis and they get you know, and a classic example again, is just say, how does the toilet work? Right? And just listen to that other person go on. And Bob very confidently explain how the toilet work this and that and valves, if you're above the hemisphere goes clockwise if you're below the hemisphere, it goes counterclockwise.

Bob French 02:31
Very different memory of this conversation than I do.

Alex Murguia 02:36
That's something else. That's my own issue. That's my own baggage.

Wade Pfau 02:40
aside what Bob was going to be installing a new toilet over the weekend.

Alex Murguia 02:45
Yes, yes. And obviously he just, he just gave us a dissertation a little bit, we know, we get a text late at night. Hey, guys, I'm gonna be late today. I'm having a plumber. Installing. He's gonna install the toilet and Wade, what did you respond there?

Wade Pfau 03:06
I thought you said in the last episode, you're gonna do that yourself.

Alex Murguia 03:09
And Bob, what did you respond?

Bob French 03:11
That was the plan? And then I realized that was an absolutely horrific idea. So

Alex Murguia 03:21
that's pretty much that's pretty much today's podcast, right? You know,

Wade Pfau 03:29
whenever you're dealing with running water, it can get pretty dicey. So I understand.

Alex Murguia 03:34
What about running water expected

Bob French 03:35
cost of the chance of them having to come out and fix it, which is, frankly, incredibly high. Plus, whatever I broke, is gonna be a lot higher than just paying them to do it the first time. So

Alex Murguia 03:49
I don't know. I thought I thought we were going to take that little clip of you explaining the toilet and put it on a YouTube video. Like how to videos on YouTube, because I was just like,

Bob French 04:04
blown away. I would encourage everyone to go back and listen to that like five second clip. Alex is apparently Miss remembered. Is this thesis. The inner workings of toilets here.

Alex Murguia 04:19
We're gonna send that because are you talking about? So what do we got? What are we talking about?

Bob French 04:30
The entire episode was just talking about how I hired a plumber. But I think

Alex Murguia 04:38
a lot of there's a lot of

Bob French 04:41
maybe a little interesting after the fact but no, I think this week we're talking about you know, last week we talked about what the markets are. This week we're going to talk about, well, why do we get involved? Why are we doing anything with them rather than just letting those companies do their thing? Why as retirement And investors? Do we invest in the financial markets? And that's a pretty fundamental question. You know, because it's risky, why are we putting our money at risk here? Why do we, what do we get out of it?

Alex Murguia 05:16
Okay, Bob and I, and we should have preferences before the, the podcast when we're saying, Okay, what are we gonna talk about? I'd like to know, on a serious note, I know, right, but this is more on a serious note, let's do you mind taking just two, three minutes, Bob beforehand, just because of the news from the day, you know, I think this is, I'll start off, and then I'll give it to you since you knew him personally. But Dan Wheeler, someone that was immensely influential. In the careers of many, many advisors, myself included, he was effectively my introduction to the financial services he, he worked with, he's the one that brought advisors over to DFA changed dimensional fund advisors from an institution only firm, to one that attracted advisors so that they can, they can provide, you know, dimensional fund advisors to consumers. And he was effectively for me a force of nature, but he was my initial introduction to the financial services industry. And I was immensely fortunate to have someone of his ethical grounding, and, and just overall way of being as my introduction, because it really set my trajectory in a significantly positive manner. And I think he goes on, you know, he'll go unnoticed, because unless you're in the industry, you won't know who he is. But he's somebody that that really impacted millions of retail investors to the positive and I just want to get by my Thank you, Dan, for that. Yeah.

Bob French 06:55
No, I and then, while he passed, I guess it was last week when this this comes out. You know, and Alex, as Alex said, I mean, he was really the person who made dimensional funds. And in really, all of these kinds of institutional type funds available to individual investors, he really is the one who brought that through the advisors base. And then, you know, continuing that trajectory on really made those available to millions of people. And he was a truly amazing person. You know, across all sorts of different spectrums, you spent any time with advisors who have worked with him, or just people who have worked with him, and I was lucky enough to start my career working for him, right out of school and the dimensional funds in the financial advisors group. They, they always have Dan stories, either stories, he told things he did, you know, he really was a larger than life type of person. And, you know, he made the world a, at least for investors, a significantly better place, and really brought that brought that institutional style of investing the abilities from there to individuals, you know, so he's someone who's had a massive, massive impact for the better on this industry. So I don't know that there's much more insight into a whole session on on Dan's story, which, again, we very easily could, and it probably would be one of the more entertaining episodes too. So

Alex Murguia 08:43
no, no, no, he was a he was a character on many levels, but it just wanted to bring it up because he's somebody that it just deserves, mentioning. I mean, he's truly impactful to folks that don't even know

who he is. And that's, you know, that's a measure of a man, you know, to a large extent. That being the case, the, in this episode, where why do we invest? Right. But Wade, do you do like maybe giving a quick review of last week and just the maintenance as we onboard into this one in case? You know, somehow somebody missed last week's episode?

Wade Pfau 09:18
Yeah, well, I think really like last week, if you think of the theme of it, it was really like the building blocks of what are financial markets? What is the bond market? What is the stock market? How do they work? How do they provide any sort of return to investors and the differences between stocks and bonds with bonds having fixed coupon payments, so you're effectively lending money to a firm to receive payment back with interest, the stock market being different with like you're getting an ownership stake in the company and that gives you a right to the future earnings of the company and whether those earnings are paid to you now as dividends, or whether the company reinvest those earnings because they believe they have the ability to obtain greater growth. so that you will then subsequently receive even greater dividends in the future. It's really two different approaches to investing and ultimately the asset allocation becomes how do you put together an investment portfolio with these different types of assets? So it was, yeah, this broad introduction to what financial markets are all about. And I think continuing with that theme this week into, like, why do people invest? Or what is it? Like we talked about the building blocks? How do those building blocks work together to then provide some sort of expected return to the investor. And ultimately, the I know, with the first bullet point that Bob has, in his outline about the kind of thing for today, it's, it's actually Alex's favorite expression that the market doesn't owe you a retirement. But why might you think you may be able to fund a retirement by investing in the market, if I can kind of give the idea of what we're going to be discussing today.

Alex Murguia 11:02
It's my, it's my favorite expression. But I took it from Weston Wellington, who we, I think Bob is trying to get him later on in this series. And it's stuck with me ever since. But the I, I think it also that that phrase has a lot of implications. It even has implications for what we talked about last week, which was, you know, at the end of the day, the stock market is a form of financing for companies. You know, those are one of the building blocks that we were talking about, and what does that mean? I mean, it's, you know, a company pre IPO seeks to finance growth or pay back older investors, existing investors, and they go to the stock market as one of the options for that. So it's really a form of financing. And then even in the secondary market, you know, it's it's a continuation of that, because they could be active participants in issuing shares, etc, etc. But at the end of the day, I do think it's very true, because it's, it's about financing a company, it's not about a magical place where you put in $10,000. And it's a God given right, three years later to take out 10,500 or whatever. It's, it's not that at all. It's, it's, it's a function of capitalism.

Bob French 12:18
Wow, that's, that's absolutely right. You know, it's, it's one of those things where I always think of when we're investing, we're getting our returns from the market because of risk. That's, that's fundamentally how this works. And we'll talk a lot more about that concept in future episodes, and really diving in what does that mean? What are the implications there, but let's just take it right now, as an article of faith,

risk and return are two sides of the same thing, you don't get any returns without taking on any sorts of risk. You can take on risk that doesn't give you returns, but there's no returns without risk. Let's take a moment to let the audience know that this show is sponsored by retirement researcher. You can learn more about retirement researcher at retirement researcher.com And subscribe to our newsletter, where You'll receive weekly actionable information for your retirement planning benefit. Retirement researcher is an online community devoted to helping you create the retirement income plan geared towards your goals.

Alex Murguia 13:26
And, and with that, Bob, and this is more of a personal taken Wade as well, I know, I've mentioned that I know, speaking with thinking I don't know if it was on the podcast or just offline. But again, going back to that risk, you need to have risk, and it's a form of financing. And again, this goes back to why invest in the market, right. My issue, and to some extent, with the thinking of the market is this magical place where if I put in $10,000, I put in $100,000.10 years later, I am going to get out X amount, simply because historically, that's your number. Yeah, yeah. Whatever x plus whatever, right? It's, again, it's this. It's my god given. Right, right. Yeah, that kind of thing. That I think is a dangerous thing. And I think in a funny sort of way, because of the 401 K's because of this huge amount of investing that's happened over the last, let's say 25 years. I think they're starting to they're starting to be this push and pull because again, the market in its purest form, it's a form of finance. Right, full stop. But you hear you know, I get on CNBC, as you know, I always do. And but you start hearing stories. I don't know when or what presidential whatever, but you start hearing literally folks that are in the industry. Pundits say, Oh, the Fed will never let the market go down because of 401k investors. Oh, the President will never let the whatever happened negatively because of have current investors in the market. And so this kind of leads to a weird artificial pricing schema that I think, is not good over the long term for obvious reasons. Because at heart, if it's a form of financing, then you can't put artificial puts just because it's going to hurt people in retirement. I'm saying that with a cold, cold view of things, I'm gonna get that. But it's not a good vibe to kind of pretend that if you put them put money in the market, it's gonna go up, because the government will never let it go down.

Bob French 15:36
Yeah, no, absolutely. And I think a lot of that one is just straight up not true, as we've seen, you know, over the past, you know, we have 2008, we've got, you know, the post pandemic period where the market was going down? Well, it's still going on. You know, that's just not true that the, I mean, the Fed may try and, you know, prop things up a little bit, but there's, there's only so much they can do, the President would love to make sure he could never, or they could never, they could prevent the market from ever going down. That's clearly not the case, it can't keep the market going up, either. They don't have that much control there. But the market is going to do what it's going to do. And when we get involved in that, we have to accept it. You know, I always kind of think about the market as a power tool for investing is really, really useful. But it's also really easy to hurt yourself. Because it is risk, the market does go down. You know, there's this idea out there of time diversification, if you just invest for a long enough period of time, you're gonna get a good result. It's worked out like that by and large. But there's nothing saying it has to. There's nothing saying that if you leave your money alone for 30 years, you're guaranteed to get some sort of return, you know, some sort of average return and the market will

pull you back and forth. to kind of get you to that point. It doesn't work like that. The average return is, what is it happens to have averaged?

Alex Murguia 17:23
Is it safe to say that the bet, if you're looking at the time diversification is not necessarily the market? Like, but really, it's the bet on capitalism?

Bob French 17:35
Well, so I think the broader concept of investing is the bet on capitalism, the idea of time diversification.

Alex Murguia 17:42
Yeah, what does that mean? Maybe that's

Bob French 17:44
Time diversification, but what I'm actually going down that road on there, like I said, there's this idea out there, that investing gets safer, the longer you do it, that, you know, okay, yeah, we might have a couple bad years here and there. But, you know, if you stick around, you're, you know, the chances that things will turn around goes up and up and up. And that's true to a certain extent, but not in the not how it matters. So one of the things that I always come back to is, we eat total returns, not average returns or not, annualized returns. And what this means is that, you know, what we care about at the end of the day. So, you know, if I'm investing, I'm looking at my retirement portfolio, you know, I got 2030 years before retirement, I care what my dollar value at retirement is going to be not what, you know, some average return type a number is, and, you know, if we're going to be forecasting out what my average return looks like, Yeah, that might converge towards the historical average return. But if we're looking at the total value of my portfolio in 30 years, that spreads exponentially. You know, it's basically two parabolas, not two parabolas, but two curves diverging from each other. In terms of what your total return, what your dollar value will look like, at the end of the period. Investing gets riskier as you do it. But we still, by and large, most people still choose to do so. And that's not a bad choice. It's just about making sure you understand the choice that you're making. And then how does that integrate with the rest of your kind of retirement income plan? How does that integrate with your retirement income style? And what makes sense in your particular situation?

Alex Murguia 19:59
Now Something something that while you were speaking, I was thinking of something that Wade, and I've spoken about before. And Wade, you may want to chime in. And it. I don't think it's quite the fragile decade, but maybe it is I'm not sure. But it's this concept. You know how the longer you invest, your assets grow. But you know, the potential you could have a downfall later on as you get closer to retirement can really hit you harder than than most.

Wade Pfau 20:28
Yeah, I mean, absolutely. It's that those pivotal years around the retirement date, where often we think of as a long term investor, you may think the markets gonna go up over the next 30 years. But if you get a downturn early on, you might find out that you just don't get to benefit from that long term market performance. So it's, it's part of that issue that you just need to make sure that you're going to be able

to get through any sort of market downturn. And to the point that you don't know what the markets are going to do, you can't just assume they're going to go up all the time. That is a big difference between the different retirement styles, just how much comfort someone has, with the idea that markets will go up when they need them to go up in those pivotal years around the retirement date.

Bob French 21:18
Absolutely, yeah, I mean, there's there's a lot of things going on, when you're intentionally putting your money at risk. And I know we're, we're harping on this, but we're harping on, on that point, for really important reasons, you're putting your retirement assets at risk. And for some people, that makes perfect sense that you're doing that to get a potentially higher return. But not necessarily everyone, especially once we get towards the point where we're going to be using that for income, you know, when people are young, and in the accumulation phase, you know, that's a really, really common strategy. That's not the only strategy you can use, but it's a really, really common one to invest in the market, you know, some ratio of stock to bonds. But you know, as you get closer and closer to retirement, or into retirement, um, you know, that that changes based on your style.

Alex Murguia 22:13
I think it's a great point, I really, just basing this on when, you know, sup folks come in, right, there's a prospect and they're coming in for a discovery meeting, and you're hashing out what they want, and etc, I think one of the biggest values that those discussions bring is really contextualize the why they why they want to invest, I can't stress enough, somebody doesn't just bring us $10,000, I'd say I want this to turn into 3 million in five years. Yeah, that just doesn't happen. And we'll talk about that later, it really is more, there's a nest egg, that can support a current standard of living, you know, at right now, but to maintain supporting that current standard of living, there needs to be an investment thesis around it. But it's not just the investments, it's just not investments, because there's different types of goals, etc. And so this is where, you know, we came up with a retirement income optimization map. And if you really think about it, you look at your assets, you know, across three, three prongs here, where there's your diversified portfolio, and I'm putting on my retirement income hat, right? Not necessarily, I'm in my 20s and I'm accumulating assets, you know, there's, there's the investment portfolio, but there's also you know, can you develop reliable income streams for essential expenses and can you develop reserve assets for more liquidity kind of needs, if you will? And I think looking at at those three factors to get together and you know, really provide some more complete picture and it brings to light how much do I need within the diversified portfolio because that's that's where you're looking at risk at a higher level and I can't stress enough risk becomes a choice it's not the sort of mandatory thing that you have to hit over your head some folks have already weighed who said that you know if you've already won the game why keep playing i

Wade Pfau 24:19
Yeah, that's William Bernstein. He's

Alex Murguia 24:22
Oh really okay. One of his six books I'm

Bob French 24:29

visors right, as well. So

Alex Murguia 24:31
no, but it's a it's a phrase that's interesting, because it what it does is it just brings to life this kind of conversation, which is, Listen, why are you investing in the markets, right? But why are you it can't just be because I want more money, more is better than less money. It really is about kind of structuring the context of why and would you maybe want to expand upon that with with regards to the retirement income optimization map and the light

Wade Pfau 25:00
Well yeah, it's about this idea of of risk opacity, partly and of thinking about just the the symmetry of things with if you already have plenty of money to be able to meet your goals and you could take a portion of that and lock it in so that you never switch from being overfunded to underfunded for retirement due to market losses. You might want to consider taking that risk off the table. And that's really the idea. It's suppose you. Like you've got enough money to meet your goals. And you think about well, how happy would I be if my money doubles on top of that, of course, it might make you a little happier, but you already have the funds needed to meet your goals. You might improve your lifestyle a little bit, but it's not necessarily anything outrageous that it's going to improve your your standard of living in retirement versus the opposite of that is what if something happened where those funds dropped in half that could significantly derail the retirement? And that's how to think about risk in the context of do you even need to take risk or if you are overfunded? Do, you just want to take a portion of that and shift from the diversified portfolio to reliable income to take that risk off the table. And not everyone wants to I mean, if you're more probability based, you don't need to, you don't see the need to make sure you have enough reliable income to cover core spending needs. If you're more safety first, that would be a more attractive alternative to just not have to worry as much about the possibility of shifting from overfunded to underfunded in retirement. And so that's if you need the rate of return, if you don't need the rate of return, it's a different way of thinking about investing just in the context of, of how that relates to the specific financial goals that you have.

Alex Murguia 26:42
No, I correct. I mean, listen, it's not it's not about shooting for that big number. It really is just just trying to get contextually what you wanted to accomplish. i There was a recent update to you know, that happiness study that they've been like a longitudinal study in Harvard, where, you know, I don't know the ins and outs of it, but you know, effectively, there's, there's a certain level of wealth that kind of covers covers you from, you know, having to survive and having to worry about things that are more, you know, hierarchy of needs, you know, lower base hierarchy of needs and nature. And once you get past that, the higher levels of wealth, you know, that you get, you get to a point where there is this marginal utility, yes, but more is better than less. But in terms of an existential peacefulness, I think you run into a ceiling at a certain point. And so like I said, it becomes sort of an option. And the reality is, I don't think there's any self respecting advisor, here comes the emails, by the way, that, that if you're doing a financial plan, or something like that, and you have to count on, on an expected return greater than, like, 8%. For you to accomplish some sort of goal that you want. I don't think it you know, I don't think they'll be like, yeah, no problem, we got this in the bag, you know, we're gonna, we're gonna stake we're gonna buy some crypto and stick it on the Kraken system. And you know, off you go, Oh, no, no

one would do that, they would kind of, they would tell you, Okay, let's, let's reassess your goals. Let's see what things we can control that can help you achieve it. But the reality is, in the advisory space, if you have an advisor that just takes your money and says up, we're gonna get you more money, and you know, in five years, you'll have more money, and then you can decide what to do, then. That's not the way to go about it, it really is trying to assess and goals will change, we get that, you know, but it's really trying to assess some sort of endpoint and then back into what you need to do to structure that. And then there's always rinse, repeat, and reassess, and all of that stuff, but that's how it goes. And so it's very important for you to really have a good idea why you're investing, if you're, if you're sitting down listening to this. And, you know, let's say you've just retired, and there's this new investment theme that's kind of capturing your attention. And you're thinking, yeah, maybe I should put 30% in this because who knows, you know, it could grow, and you're kind of living pretty well, right now. You don't have an anchor. And that at the end of the day is kind of come back and bite you.

Bob French 29:21
No, absolutely. I think that idea of backing into your portfolio, or really your your plan is incredibly important. You always start with where do you want to go compare it to where are you now? And then you figure out that bridge, you figure out what you need to do to jump that space to get to the place that you want to go. And, you know, obviously the specifics are going to really come down to what's your retirement income style, because that kind of lays out what kind of the the best approaches are the ones that you're comfortable with? And then you just figure out, okay, how do we do this? It's an engineering problem to a certain extent at that point, and what do you feel comfortable with. And sometimes that push and pull is going to mean that you have to change your goals, because getting to whatever your goals are from where you start now, isn't really feasible or puts you at more risk than you're comfortable with. But that's the process you back into your portfolio and you back into one that will be able to be comfortable for you to be able to stick with through however long we're talking about here.

Alex Murguia 30:39
Yeah, and I think too, when you contextualize your investment experience, when you contextualize why you're investing, it gives you look, as humans, we're prone to biases, we're about rule prone to making terrible mistakes when it comes to investing, although very good for our adaptive survival. They're, they're maladaptive, in a significant way on orders of magnitude, when it comes to investing and just knowing them isn't going to help you. But putting yourself in situations and environments in which there's guardrails in place, is really the best that we can offer right now. And in some of that is being sure that you've contextualized the investment experience, because if you know why you're investing, you can always go back to that during moments of duress, during moments of what's going on with the market doesn't know it owes me a retirement. No, it doesn't. It doesn't care, it's agnostic. It's not there for you, you're there for that you're there for the market, not the other way around. You know, and but because of that, but what do you think, you know, contextualize it, what happens? When does? How well does the financial industry do to help you contextualize the investment experience? How realistic are they?

Bob French 31:54

you know, and we've, in a number of different avenues, we've all kind of talked about this individually, about how the financial market or financial media and financial services industry, as a whole is just horrific at helping investors and helping retirees reach whatever it is that it's appropriate to them. You know, we'll get into this a lot more. You know, in a future episode, we're actually talking specifically about the financial media but, but long and short of it is the financial media will separate these into the financial media and the financial services, industry, financial media, their incentive is not for you to have a good investing experience, their incentive is for you to keep watching, or keep reading or whatever it is, you are the product being sold in 95% of the case, your attention is what they are selling to their actual customers, the advertisers. So if they give you good information, if that's if that good information is what keeps you watching, great, you know, they're not necessarily bad people, you know, they'd like to help you if they can, but but that's not their their ultimate objective. The financial industry, financial services industry as a whole. By and large until relatively recently, still relatively, or for a very, very, very large chunk of the industry is about getting you to do something, it's about getting you to buy something, or sell something or make some change in your portfolio, whether that's appropriate or not, whether that serves your end goal or not. So by and large, you don't have that many people out there actually actively trying to help you reach your ultimate objectives. You know, they're all out to do something different. And again, you know, I'm not going to say they're out to hurt you. It's just that their goals are different from yours. And that's really, really important to recognize. Are you getting close to or are you in retirement? Well, investing during retirement is a little bit different than during your working years. Your investments are there to help you pay for retirement, and now is when they need to earn their keep to make sure you're on the right track. Download retirement researchers eight tips to becoming a retirement income investor by heading over to retirementresearcher.com/eight tips again, get Retirement Researchers eight tips becoming a retirement income investor by going to retirementresearcher.com/eight tips. That's the number eight tips.

Alex Murguia 34:48
Yeah, I think Listen, when I love the markets, I really do. That's why I initially got into this and I like it and I watch CNBC. I part of my morning routine as I'm drinking my coffee. Coffee is at work from my house, I'll have lunch downstairs, I'll put it on. But I can't stress it enough. I don't watch it for stock ideas for me to trade on. I watch it really to keep up with like current events in the markets and industry. Some people watch sports shows, you know, if you will just enter watch highlights just to see what's going on that kind of thing, because they're interested in baseball, football, what have you. I literally just like the whole news of companies. It's one of those things, some people like C span, right. So I really watch CNBC just to keep up with current events. Now there is a part of me that watches it to see the antithesis of what good advice is, like, you know, that kind of thing. And there's maybe a little bit of shot and fruit that goes on there, especially when Cramer makes a fake. But the reality is, I don't watch it. So I get stock ideas, I watch it just like be just just to listen in because I like it. I think the problem happens when I'm at the age to when, you know, some of my friends they've had, you know, good professional success have extra capital. And they start I think I put a I read a text last week, but they started sort of saying, hey, I want to take a flyer on this, Hey, I want to take a flyer on that. But it's not my investments. It's just, you know, a flyer, I get that. And it's entertainment, it's entertainment. But I think that's a slippery slope sometimes. And, you know, it grows and grows and grows, it doesn't go less and less and less, you know, with regards to that, and before you know it, you know, you've lost complete context of why you're investing other than I want to potentially get a 10 bagger. I've never gotten a 10

bagger in my life, and Johnny down the street go. And so I want you know that that kind of thing. And I think this, you know, it's hard to sort of separate yourself from that thinking, if you don't contextualize why you're investing.

Wade Pfau 36:51
When there's yeah, there's an important distinction to between being a long term investor, which often means just allowing the markets to hopefully grow as the economy grows over time, versus this idea that you should always be taking some sort of action, and you need to be trading or buying and selling on ongoing basis. When the reality is that can cause you more trouble than if you just have that more simple buy and hold strategy. But with the consumer media and with the type of financial services that are paid based on trading activity, a long term investor who buys an asset and holds it for the next 30 years isn't something that's really going to help those other types of individuals succeed in their businesses. And that's where we have to think about investing as a long term investor is not necessarily benefiting from that type of ongoing advice and churning and buying and selling and trading activity that the financial media may push for.

Bob French 37:55
Yeah, absolutely. I mean, and there's always those, I think it's apocryphal studies, because I've seen it from like every custodian about, you know, how their best performing accounts, are the dead people who, you know, never closed out their accounts. You know, the accounts, no one ever opens because they don't trade. Now, that might be true, that probably is true. In all honesty, I've never seen the underlying study everyone always talks about, but, you know, it's that exact same idea. You know, the more?

Alex Murguia 38:27
Wade, Wade, I think that studies apocryphal.

Wade Pfau 38:27
I think there's plenty of evidence that people who trade lists tend to perform better,

Bob French 38:28
There's absolutely, absolutely a lot of evidence on that, you know, one of the ways I've heard described as you know, your money is like soap, the more you touch it, the less you have, you know, and that's for any number of reasons, you know, both, because we're just bad at investing, where you got to pray, or you got to pay in most cases, for each and every trade, you got to play tat deal with taxes, there's all sorts of things going on there. So, you know, the less you actually do with your money, the more you just keep it going along, keep sticking to that plan, you know, throw your money in and while you're working or you know, pull your money out on time, when you're pulling your money out in retirement. By and large, that's that's the right approach. That's the strategy that's going to have the best results.

Alex Murguia 39:31
That's the one that also aligns with the whole thesis of why you would be investing from a human from a capitalism standpoint, what you're doing is you're getting your, your your proportionate share of returns from participating in capitalism by funding these companies. You know, that's really where it's

at, and that that aligns with the whole theme of the capital markets. I mean, you could try to play get in and get out and get in and get out and so forth, or, you know, spot something. But it's, it's just not going to happen that the results don't don't show that. And if you take a step back and think about it, if it's as opposed to that show Fast Money that does sort of, what's your best trading theme for the day, and you know, at four o'clock, or whenever, whenever, whenever it is, it's Bob, Wade, and myself, and we're talking about the day's actions. And we just say, buy and hold today, buy and hold today buy and hold today. But is there one sock, let's buy 40 stocks? When we say the same thing every day, every day, every day, every day? I don't think Well, Bob may get a lot. Yeah, he'll have a little fandom. But Wade and I won't. You know, we will we won't, we won't have a we won't have a show. And Bob, you told a story. A while ago, why don't you introduce that? And so yeah, bring it full circle. Yeah.

Bob French 40:51
So this is actually something that that Dan Wheeler, you know, I will say this as a preference, the preface to this story. When when Dan Wheeler told a story. You were never 100% sure how much was true? And how much was making a point? I'll say, but apparently, yeah. For I forget exactly when I think it was in the 70s he was living in Idaho. And you know, he was a financial advisor in Idaho. And, you know, he was the guy on the local news, giving the market report every day. Thing is, he recorded that around noon every day. So he would record kind of the the main section talking about, you know, hey, here's, here's what happened. But he would also record a little section for if the market went up, and a little section for if the market went down. And then they would just play the appropriate one on the nightly news. And, yeah, I mean, it was, I have to imagine the industry has changed a little bit since then, with the financial media and the level of sophistication. But it's that same sort of idea. What he was really getting at is, you know, this level of analysis, this level of day to day or week to week, or even month to month, possibly even year to year doesn't really give you anything to work with. It's all just noise. And if you really want to have a successful investing experience, a successful kind of retirement experience, if you're using the markets, it needs to be focused in on that much, much longer term approach. As Alex was talking about, you want to be piggybacking off of capitalism, you want to be getting that kind of incremental return your share of those returns to get you where you want to go.

Alex Murguia 43:04
Yeah, I mean, this and I've, I've met many people over the course of 20 years of my career in finance many highly intelligent people. I put my money on Wade, and Bob, as being up there with any of them. And I've never said this, and it breaks my heart to have to say this, you know, Bob knows how hard difficult it is for me to say this, but but that Wade expense? No, but I mean, honestly, I put my money on them. And what do they do? You know, think about if anyone could, you know, buy stocks and this and that and figure it all out? It would be them. They choose not to for a reason. I mean, that could be the whole pack and say good night ladies and gentlemen, you know kind of thing. But they're very sanguine about the markets and investing don't get me wrong, but they don't, they don't partake gain. I'm gonna outperform on our guests. I'm smarter than everyone else, you know, kind of thing. They just piggyback off capitalism to get these expected returns. And I can't stress enough anyone's whose retirement is predicated on needing 10 plus percent return. You're gonna need 90% luck behind you. You know, for for this to be able to pull this off. I mean, bottom line, you're not a genius. You're not going to, oh, I'm going to invest in I don't know, give me some sort of cybersecurity company. I know Palo Alto Networks, because you know, XYZ No, it's just not gonna happen, man. And if it does, you just lucky.

And I know you could tell you're just saying that I've given myself an argument that is is really is not refutable. But no, we'll get into the stats. That we'll get into the stats in later on episodes where you can choose to ignore it and say I'm different. I'm sorry. Sure, because, you know, I'm a snowflake kind of thing, you know, and there's, you know, everyone is different, but I really not when it comes to this, it just doesn't. And it takes humility to actually recognize that, and and say that, listen, I'm a participant in the market, and I'm gonna sort of try to piggyback off capitalism in aggregate in the fundamental risk that I'm going to incorporate in my portfolio. Bob Wade, comments that.

Wade Pfau 45:30
I think that that's a great way to sum things up. And it's probably just worth talking about what we're going to be going into in the next couple of weeks with trying to build that argument more with how technical analysis and different types of approaches just ultimately don't work. And so that's just really building on this point of risk and return, you decide on what's the appropriate level of risk, you're willing to take higher risks should hopefully lead to higher returns. But that's over long holding periods. And that's what that whole idea of piggybacking off of capitalism is all about is giving yourself the opportunity to benefit from return by having holding periods that are sufficient that hopefully some of those risks will balance out. But risk is always there. And that's, you can never overcome the the fact that there is risk as part of investing.

Alex Murguia 46:25
No. And what helps you though, with that is having that contextual base, and that contextual base, you know, is well diversified portfolio, reliable income sources, reserves, how does that whole dynamic play out? And how does that dynamic play out to achieve my goals and your goals in retirement are largely, we've discussed as podcasts just on this longevity, lifestyle, liquidity, legacy, those things and really engineering it towards that the other point way that, you know, risk return we're going to show in the next episodes is, risk and return are related, right? But it's very possible to take on more risk without commensurate return. And that's what that to us is a no fly zone. When it comes to that. Sure you can structure returns per unit of risk, etc, etc. But you want to make sure that you're compensated for those risks. They don't go, it doesn't go back and forth. What's that math term that you use? Bob, I forget, you learn in that arithmetic, like, three plus four is seven, four plus three is seven, and you go back and forth. I don't remember whatever. Property? Yeah. What is it really?

Wade Pfau 47:38
Why is it commutative? It's one of the associative communitive.

Alex Murguia 47:45
Transit biggest transitive chain? I don't know how you guys remember that? Yeah, it's Trent. And it doesn't work like that, you know, risk and return doesn't necessarily always go the other way. You want to make sure that you're compensated accordingly. And we'll show you how that falls short of the mark, you know, when you sort of deviate from this aggregate risk? Okay, I'm not gonna You got nothing to add at this point.

Bob French 48:11

So yeah, you know, we'll obviously be getting into, you know, in some later episodes, really diving into the the inherent logic in, you know, as Alex talking about diversification and focusing in on those risks that the market will pay for it. And what does that statement, even me, because there's a lot behind that that needs to be unpacked to really get at the inherent logic.

Wade Pfau 48:42
That's a wrap. Yeah. So we'll catch you next week. When we start really this, these last two episodes are more introductory, and we'll really start to dive into some of these topics in greater depth. So thank you, Bob, for joining again, and for joining us again in the future as well. And everyone have a great week and we'll catch you next weekend Retire with Style.

Bob French 49:01
Wade and Alex are both principals in McLean Asset Management and Retirement Researcher. Both are SEC registered investment advisors located in Tyson's Virginia. The opinions expressed in this program are for general informational and educational purposes only and are not intended to provide specific advice or recommendations for any individual or on any specific securities. To determine which investments may be appropriate for you, consult your financial advisor. All investing comes with a risk including risk of loss. Past performance does not guarantee future results.