Episode 14: What to Make of the Current Market Downturn

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. Well, it's time to put a voice to the voice. You only took 14 episodes, but Wade and Alex finally invited me to join them as we discuss the markets. I'm Bob French. And in addition to running Retirement Researcher, and being the disembodied voice here, I'm also the director of investment analysis at McLean Asset Management. There's less stuff to use a technical term going on in the markets now. So let's talk about it.

Alex Murguia 01:09
Hello, everyone, welcome to Retire with Style. I'm Alex and I'm here with Wade.

Bob French 01:17
And Bob French,

Alex Murguia 01:18
and Bob French.

Bob French 01:19
The voice you've been hearing at the start the entire time here, I'm finally here.

Alex Murguia 01:23
That's right. That's right. If any of you have been wondering, whose dulcet tones and that's the vibe he describes it is doing the intros and the cutaways. That's, that's Mr. French right here. Welcome, Bob.

Bob French 01:40
Welcome. Thank you. And for

Wade Pfau 01:42
the broadcast announcer that's why we have him here today.

Alex Murguia 01:46

That's right. Once all Michaels join the Thursday night, Amazon team, Bob had no other choice. But to come back to us. Bob, do you want to you want to say a little bit about yourself, so everyone knows who they're listening to.

Bob French 02:01
Sure. Um, so you know, I'm the third person in the Retirement Researcher type of group here. You know, as you've probably seen, if you've been paying attention to Retirement Researcher or seen some of our stuff, I tend to be more focused on kind of the investment angle of things, you know, coming through kind of on the investment side of the world coming up through asset management, and then joined up with these guys back in the instream days, then just kind of been tagging along ever since. So

Wade Pfau 02:34
that role of the investment analyst and investment research, but the retirement researcher, Community

Bob French 02:40
Investment Analyst might be not quite the right term there. But

Alex Murguia 02:45
as you know, he's very humble because he said he's kind of he's positioned himself as he's the third guy here, but he's really number one in our hearts. I mean,

Bob French 02:55
That's where it matters here.

Alex Murguia 02:56
Yeah, come on, Bob. No. And Bob is also the director of investments at McLean Asset Management. I mean, really, Bob, there's very few people that know more about the overall investment theory practical application than Bob he's really good. And we're fortunate to have him here, all it took is an email and lo and behold, here he is, but go on Wade

Wade Pfau 03:22
will end up Bob's point like Investment Analyst says not the right term, because Bob's not someone who's going to be choosing individual securities, but really having that understanding of the broader financial markets, long term stock and bond returns. And that's all what we want to talk about today to really dig into this is a current events episode. So if you are listening to this, at some point in the future, you'll know how everything played out. You can see if God knew what he was talking about, but in the meantime, there's a lot going on in the financial markets, as we're recording in mid May 2022. And we really want to just walk through that with Bob today to to get a good sense both what's going on and putting historical context around that as well. Yeah,

Alex Murguia 04:11
yeah, no, your right Wade. This is the current way. This is the current events episode when Wade and I were thinking about, Okay, what what are we going to fill the podcast with, we knew that we had enough research to discuss and we knew that we could bring in guests, but we also knew that they'd be

inflection points during the year where, you know, you don't want to come across as tone deaf with your podcasts and you want to, you know, address what's happening right now, especially when there are events that are quite quite newsworthy are in the news, but better said whether they're newsworthy or not, I don't know. But they're in the news. And so this is definitely one of those. So with that, Bob, what's been happening?

Bob French 04:50
Yeah, so um, you know, as as we had said, it's, it's mid May 2022. We're actually recording this over the weekend. And you the date, the markets have have not been awesome, you know, through the close of the 13th, may 13. markets have been down a little over 16% on the year, you know, we're seeing high inflation, you know, just not, not fun stuff. And also those rising rates kind of going along with that high inflation. You know, he's got a lot of people kind of thinking back to the 70s, which for a host of reasons, we're not the best time in the world, you know, people have started throwing around the term kind of stagflation. And generally, people are just kind of worried about a bear market. And, you know, also a recession at the same time, which is obviously not, not a good combination. So, I think a good way to start this off is kind of talking a little bit about why we're seeing what it is that we're seeing, you know, trying to second guess or psychoanalyze, or whatever term you want, the market is always dicey. But, you know, I think there's some some things we can kind of say, with some degree of certainty.

Alex Murguia 06:13
So just to get this clear, so you said the markets have not been awesome.

Bob French 06:20
They have not been awesome. Thank you.

Alex Murguia 06:22
Thank you for that. No, Wade, I didn't know I read the headline, even yesterday, it was like, There's only a handful of times that it's gone down for six weeks in a row, like for like greater than 10%. You know? Yeah. So yeah, it's amazing,

Wade Pfau 06:35
kind of every day, it's like two days in a row, the market loses two and a half percent, and it's up two and a half percent. And then it's just a wild climate, and you hinted at as well, Bob, it's not just the stock market with the s&p 500 being down year to date, 16%. But when interest rates go up, probably most of our listeners understand this point. But it's an important point, you can also lose on bond funds as interest rates go up their capital losses, so that people may looking at their portfolio of stocks and bond funds and seeing major losses for for both of those categories.

Bob French 07:08
Absolutely. Yeah.

Alex Murguia 07:10

The I would say one quick thing. And this is my I kind of find myself always giving this comment, bonds and bond funds real quick, because this is retirement style. And we're interested in retirement income strategies. When we say bond funds, I mean, when we say bond, you know, though its bond fund, or bond funds better than bonds and stuff like that, and do this quickly. For us, we view bond funds as a component of an investment portfolio that you're potentially going to use within a total return strategy. We think it's very appropriate there because you're using it to balance volatility, etc. A common could be well, we just said they're down fairpoint. And Bob will discuss that. The other piece is, you know, when we're looking at individual bonds, we view those as you know, you're managing the duration for your spending, etc, etc. And that's within a time segmentation strategy, and the like. And so that's, that's how we make our discs, distinction. So I wouldn't listen to this thinking bond funds, well, I'm just gonna buy individual bonds and hold them to maturity, and they'll never go down. That's it doesn't work that that that easily becomes a mental game. But I'll just leave it at that. I wanted to point that out, because it's a very common question that we get.

Bob French 08:20
Yeah. And just to kind of elaborate on that, I mean, Alex's point there about the distinction between bond funds and bonds is really important. Because if you are holding at least a typical bond to maturity, you sincerely do not care what interest rates are, you are locked into that particular payment. Now you might care, you will care if you're going out and buying more bonds at some point in the future, because that's going to determine the price that you pay there. But the ones you hold, to the extent that you know, the issuer, company, government, whoever it is, doesn't, you know, default, you've got that money effectively.

Wade Pfau 09:00
So yeah, your losses are just on paper, if you sold it, you experience a loss, but when you hold it to maturity, you know what you're gonna get. Now, we'll also be talking about inflation, which is another issue, if you were expecting that maturity value of that bond to pay for such and such amount of good services. You might not get that full purchasing power, if inflation is higher than you're expecting it to be. But But yeah, that's the distinction. Bond Funds, you can't hold to maturity. So if and you also generally, if you're selling shares to fund retirement expenses, you're forced into locking those locking in losses. But but let's get into this issue. So why is this happening? Not what's going on in the financial markets that's been causing this kind of screen with these losses?

Bob French 09:47
Yeah, so like I say, we it's it's always tough to kind of decompose why the market is going to do what it has done, what it's done. But I think it's safe to say that essentially what we're seeing is effectively a surfeit of good news, you know, things have just been kind of better than we expected. So, you know, obviously, we're coming out of effectively the pandemic downturn, if you will. And it didn't. From an economic standpoint, it didn't last all that long. But it certainly screwed up a lot of kind of businesses and supply chains and all that stuff. But during that same time, people just haven't been spending nearly as much they haven't been going on trips, they haven't been, you know, making these big purchases, all this type of stuff. And now they're looking to do so now they're looking to spend that money they didn't spend over the past couple of years. So what we're left with is a situation where, you know, these businesses, they can't hire fast enough, they can't produce enough, so there's a lower

supply. And there's a higher demand, because people want to spend all of that money they didn't spend previously. So we're seeing rising inflation. And now, because of that, you know, the Fed is coming in and trying to tamp that down, you know, meaning that they're gonna raise those interest rates, which, you know, the market and in terms of the stock and bond markets, don't tend to like as much. So, you know, that's gonna kind of depress what the markets are doing here. And, you know, because we're in this kind of inflationary scenario, we don't have that same kind of fed put, that often talked about in terms of the Fed, effectively, kind of supporting asset prices, they're just not going to do that, because that goes against their actual mandate of managing inflation, as well as, you know, trying to maintain a relatively high level of employment. But one thing that I want to kind of emphasize here is that, you know, oftentimes, the Fed kind of gets an oversized role, or people kind of place an oversized role on the Fed for asset prices. You know, there's there's kind of that immediate effect that we always see when the Fed makes whatever move they're going to make whether they raise or lower rates. But that tends to or not, doesn't, that doesn't tend to, it does get priced in almost immediately, when you look at how those changes, impact future returns, there's really not an impact there. You know, I've looked at this in the past, looking at effective fed rates. So what the rates actually are and how they kind of gyrate day to day, there's really no correlation with the stock prices. You know, there's some other research out there looking at Feds targeted rate, which, you know, they should at the very least rhyme, but, you know, there there's no real impact on asset prices. And it's really the same story on the bond side of the world, you know, the Fed will have that impact. Initially, you know, as we've talked about, you know, as interest rates move, you know, that's almost one of the few kind of identities in the financial world, you know, as interest rates go up bond prices.

Alex Murguia 13:22
But Bob, just just a little break in the action with regards to bonds, because we started saying, you know, stocks dropped roughly 16%. I think the magnitude of drop on the bond funds in, you know, just this year alone, has been as significant on a on a relative basis, the like, right, it's been like 20 years, something like that, since bonds have dropped. Yeah, I can tell

Bob French 13:47
Yeah, depends on exactly what you're looking at and how you measure it. But yeah, a long time. It's, it's a bad

Alex Murguia 13:52
number, we did our quarterly review, and it was like, it was an insane number. Do you remember off top your head what it was?

Bob French 13:59
I don't remember what number you're specifically referring to. But I mean, it's it's definitely been one of the worst markets for bonds in a long time, you know, literally decades. And, you know, it's that's kind of, basically because of, well, to a very large extent anyway, there's other stuff going on, but to a large extent, because the Fed has risen or has increased those rates, those interest rates, which, you know, push rates up along the along the spectrum.

Wade Pfau 14:32

Yeah, and maybe a point to also remind our listeners as well. So the maturity length of the bond has a relationship to how much that potential loss could be. And we've seen, the 10 year Treasury rate has come up by more than 1% Since the start of the year. It's going to then if as interest rates go up, that 10 year bonds gonna lose a higher portion of its value compared to shorter term bonds, but then even longer term bonds have had this higher duration so they have a bigger impact when interest rates go up a 30 year treasuries gonna lose even more than a 10 year treasury.

Bob French 15:09
If you're looking for more personal advice, please know that our show is sponsored by McLean Asset Management. Learn more at McLeanam.com. That's McLeanam.com. McClain Asset Management is a wealth management firm where we help you design and implement the right retirement plan for you.

Alex Murguia 15:30
Wade at what I would add to this, because some you know, there's a lot of we have a few people listening, right, we have pre retirees post retiree, you know, people that have been retired. What, what context you use? Do you recommend that should be listening to what we're saying? You know, because some of this, if you're an accumulation based portfolio, that's one way of interpreting it, if you're in a distribution based portfolio, that's another way of looking at it, if you're within the distribution base, a total return strategy would be very different than someone implementing an income protection versus time segmentation, etc.

Wade Pfau 16:07
Right. So if you're still in the accumulation phase, it's psychologically it can be tough. But really, this, anytime there's a market downturn, and you're able to save new funds, it's an opportunity to purchase more shares at a lower discounted value. So that's how I personally am. And it's hard, but to try to think about it as no, I'm really not happy my assets are losing value. But actually, I can purchase more when I add new contributions to my savings account. The problem really gets into as I approach retirement and get into retirement, that's where the sequence of returns risk becomes an issue where if markets are down, and I need to take a distribution to fund my retirement expenses, that forces me to, to lock in the losses. And that's then it becomes the issue of am I comfortable managing that type of market volatility in retirement? And or do I want to look, take the retirement income style awareness, the RISAand figure out if that may be the right style for me, or there's other styles or other strategies as well that that an individual can think about? And hopefully do that before any sort of market downturn happens?

Alex Murguia 17:20
No. And I think that's important. Some of because, I mean, it was in a movie, you mentioned it briefly. But ever before the podcast, but literally, there's Bill Baingin. And, you know, total return, the markets happening, the markets going, you know, downward, and he's readjusting his asset allocation in a significant manner, you know, violating many of his own tenants and his, you know, 4% Rule kind of thing. And that's where the idea is, you want to make sure you've locked in a strategy beforehand and have automated it. And if you're, if you subject yourself to a total return strategy in retirement, then this what we're going through right now is par for the course. I mean, it's what you've signed up for, effectively, way.

Wade Pfau 18:08
Right. And to I've had an exchange now with Bill Baingan. On this point that, yes, his research said if you're going to use a total return investing strategy, never go under 50% stocks. But and this is where Bob has this very academic view of the financial markets, which

Alex Murguia 18:26
no, that's a good thing.

Wade Pfau 18:30
Market timing doesn't work. But his explanation for being in 20% stocks now is simply he subscribes to a service that is providing a recommendation, stock allocation, which well, I think, which is a great lead in to some of the other issues we want to discuss of, if the market is down 16%. To date, what necessarily, does that mean will happen the rest of the year? And ultimately, can we know, just like the market stand right now? Is it does that mean we're somehow in this new trajectory where it's going to continue to go down? Or how significant is this market downturn? I think there's a lot of different issues we can discuss here. Bob, it maybe the first is placing context, right now, how does this compare to other types of market downturns we've seen?

Bob French 19:21
Yeah, so one thing that I want to stress is that, you know, for I'm looking at data for the last 20 years, but you know, it's for the last ever, you know, there you almost never see a year where the markets not down by, you know, a reasonable degree at some point, even during really good years. You know, I mean, just going back 20 or 2009 You know, the low point intro year was it was down 27 ended the year up 28% You know, as a 2012 it was down 10 ended up 16 You know this is not even talking about 2020 It was, you know, for obvious reasons, it was down 35% and its lowest and up the year at up 21% The markets gonna do what the markets going to do. So, you know, quite possibly for we're looking at it on, you know, what's going to happen to the market across the entirety of 2022? Yeah, the markets got a long way to make up if we're going to have a positive year. But that's kind of the wrong question to be asking. You know, because the markets already done, what it's going to do, we know, doesn't matter what happens next, you know, this 16% loss is already baked in, what matters is what's going to happen next. So, really, one of the things that we want to focus on is, well, first off, let's put this in a little bit of context. So, you know, if we're looking at it, we're kind of in the middle of the month. So using monthly data, let's take a look at you know, how often we've seen a drop of 16%, you know, between either four or five months, over any time period. So going all the way back to 1926. You know, we've seen 50 to five month periods that have had a drop worse than what we've seen through Friday on the 12th, or on the 13th, excuse me, and 65, six month periods. So basically, you know, if you were to pick a random date, or a random month, at some point since 1926, there's about a one in 20 chance that the next five or six months would be worse than what we've just experienced. So, you know, not likely, but not out of the realm of possibility. It's

Alex Murguia 21:59
something you have to kind of ready yourself for, because it's yeah, it's,

Bob French 22:04
it's, it's in the cards, you know, this is kind of this is what you signed up for, this is what investing in the stock market means or investing in the financial market more broadly. means.

Alex Murguia 22:17
But But Bob, but that would make the stock market investing risky.

Bob French 22:22
Ha, Alex, I got some bad news for you. That's kind of what it is. That's, that's why we get these types of returns? Or why we get the good types of returns?

Alex Murguia 22:32
I think, yeah, I think it's worth unpacking that a little bit. Because I do think sometimes that the expectation is, you know, I put money in and more will come out. And that's, that's a given.

Bob French 22:46
Yep. And, you know, for if you're talking about a long enough period of time, you know, that's, that's basically been true. But all that stuff in the middle, it gets a little messy. So it's, the whole idea behind putting your money into the stock market is that you're putting your money at risk. And, you know, from the markets perspective, everyone, so even backing up to first principles, know what a stock is, is it's a share of ownership, it's a small sliver of ownership in a particular company. And every sliver of ownership, every share has to be held, you know, there's no wild shares of I guess, meta now wandering lower Manhattan, every share is held by someone, and the market will find the price, where that's true, the market will find the price where someone is willing to hold each of those shares. And you're not going to put your money into that you're not going to give your money to or you're not going to buy some shares, if you don't think that you're going to get some level of expected return off of that. And the amount of expected return you're going to be looking for is going to be contingent upon how risky you think that company is how much risk you're taking by owning that share. And you're you're going to price things based on that that assumption. So, you know, the level of return that we get out of stocks or any other financial asset for that matter, is completely contingent in the long term on the level of risk there. And you know, stocks have relatively high levels of expected return, which means they have relatively high levels of underlying risk. And, you know, that's what the markets there to do. It's there to compensate you in that fashion. But you wouldn't get that expected return there would not be that expected return associated. If there was not that risk, and risk, to be risky. Has to pop up every once in a while. It can't all be good. And just this semantic concept. Risk is going to hurt every once in a while. And how you deal with that is going to determine what your investment experience looks like.

Wade Pfau 25:08
And also, like 2020 is a great example of this where the market was down 35%, but ended up at the end of the year 21% higher than where it started. There is this tendency in the US historical data in particular, where we just think of risk as a short term blip, markets are down, but then they come back up. And it is important to be clear that that doesn't necessarily have to be the case, or that this downturn in a financial market can last longer than it typically has in US historical data. I mean, just ask an investor in Japan around 1990. About how long is it going to take for the stock market to recover

from that downturn? It it hasn't happened yet. So that risk, yes, stocks generally go up over time, but they're risky. And to be clear, risky, doesn't necessarily always just mean short term risk. It can be a prolonged downturn that we haven't necessarily seen in the United States. In...

Bob French 26:09
that's actually a really important point. I mean, historically, looking at if we're looking at American data, basically, our good data goes back to 1926. Looking at the past 100 years of American history, it's been a pretty darn good 100 years historically, for the especially in the US. That's not unfortunately guaranteed. Hopefully, we continue with something like that. But you know, I mean, there's, that's something to consider in the data, if you were weighed, called out Japan, or, you know, some of the European countries. You know, that's not necessarily going to be their experience, either.

Alex Murguia 26:52
But I would ask you Wade, and this goes back to some of the stuff I believe it was you that wrote something like this. And I'm, there's, there's two things, I'm balancing my head, the current events, market downturn, you know, what's happening now, that kind of thing. But also retirement portfolios, retirement income portfolios, and I think you said, you're right, someone no 30s 40s, heck, even early 50s, depending if they're fire or not, and how they're accumulating. This is kind of a nice opportunity. Its easy for me to say, right, but if somebody is gearing up for retirement, and they're getting into that fragile decade, if you will, and this is not to talk about sequence risk, or any of that, but it's more of the idea that the larger your portfolio is, because you've had, you know, a good run of success on a nominal basis. Money goes down, you fall away. And I think that's, that's an interesting that not people realize that. But I think it's good to just make it explicit how there's risk of like, the longer you're in the market, the more money is actually at risk, because your portfolio has grown.

Wade Pfau 28:02
Yeah, absolutely. Like, if suppose you're right, getting close to retirement, and you have a million dollars at the start of the year as 16% Drop means you lost $160,000, it may have taken you 20 years of savings at the beginning of your career. Exactly $160 and $160,000 in the first place. So you really can notice a major significant impact when you have more money, because it means a percentage loss is a bigger amount.

Alex Murguia 28:32
Yeah, to me, I start looking at nominal stuff, and it looks like a hurricane Matt, you know, where it's, you know, made it you know, it's that kind of huge range of dispersion of potential losses. I think that's important. And I think that's important when people are doing the mental calculation of what's the retirement strategy. That makes sense. And this is why I'll harp it back to how do you prefer to source retirement income, and let's make sure you have the right one, because of all of all we're talking about here. There is some there's some of the someone in the audience is thinking, well, but it's going to recover and you know, it'll be fine, I'm going to be disciplined, etc, etc, probability base, right? You know, optionality because they can like they can maneuver right now. If someone's listening to this thinking, I don't want to expose myself to this kind of rigmarole speaks to another strategy. You don't have to force yourself into this. And you know, and suffer the slings and arrows of the pain that will

ensue. You can you can opt out and choose a strategy that is not predicated on being tethered to the market. So I think that's important.

Wade Pfau 29:37
Yeah, and it's important to understand your your preferences or your your personality with that, and we did get that test in 2020. If you were able to stay the course and 2020 and you were thinking that your probability based at that time, that's probably a good indication because a lot of people did not make it through that market drop in the spring of 2020. without panicking and selling a significant portion of their stock investments and therefore missing entirely in the recovery.

Alex Murguia 30:08
And I love that I love that you opened up a segue for Bob, because I want to get into the I'm not a market timer, but I am on weekends. Kind of thing, because I can't tell you how many folks, as a point of pride come up to us and say, hey, guess what I just got out of the market, and I saw this downturn, and now I'm gonna get back in because I'm a genius. You know, that kind of thing. And they love to come out of the woodworks and let us know about how present they were. But, you know, that's like people telling you they won the lottery, Baba, what do you think of someone that's in their mind saying, thinking, you know, I got out two months ago, because whatever I saw it coming. And now I'm just standing on the sidelines and, you know, ready to get back in when the time is, right. There's that scenario. And then there's a scenario of, you know, I don't need this aggravation. There is the war in the Ukraine isn't resolved, you know, in fact, that may escalate. Who knows if you know, the gas prices, or whatever will ever go back, you know, I'm just gonna wait this out for a little bit. If I missed a 15% run up, so be it. But I'd rather miss a 15% run up. And rather than expose myself to another 30% drop rate, to kind of scenarios, what do you think?

Bob French 31:23
Yeah, so if I could modify that second scenario, a little bit we can get somewhere, I think, is actually pretty useful. You know, one of the things that that people kind of, I don't know, if forget, or they allied or what it might exactly be, but, you know, when we're talking about staying the course, and not making changes to your portfolio that's contingent on nothing changing in your life, or you not learning anything about yourself, you know, Wade brought up 2020. You know, that was a period where a lot of people learned a lot about their true risk tolerance. You know, a lot of people thought their risk tolerance was higher than it really was, we've come off, you know, one of the longer bull markets in markets history. And then we got whacked with the pandemic for, you know, a lot of reasons but one of them being investments, you know, how the, the financial markets obviously reacted to that. And that gave a lot of people new information about their risk tolerances, how they're going to react to that, that stuff, you do want to kind of incorporate into how you go invest going forward, you do want to incorporate that information and how you design your portfolio. You want to be careful not to kind of over interpret what's happened recently, but it's new information and very valuable information. So we do want to incorporate that. Where we start getting into trouble is the last part of Alex's statement where you know, I'm gonna sit this out, it's too risky. But I'm gonna get back in at some point in time, whatever, whatever we think our trigger is. The problem is, we have no way of predicting what the market will do next. You know, we were looking at it, we know where the state of the world is, right now we know what asset prices are right now. I don't know what they're going to be tomorrow.

Alex Murguia 33:24
But Bob, I'm looking at CNBC and they seem to know about where things are no serious question, because a lot of folks, you know, I watch it during lunch really, for current events more than anything, but I've just noticed that you just been bombarded, bombarded with a bunch of BS, and frankly, from advisors that kind of pursue other strategies professionally, relative to what they say on TV, which is just mind boggling. What I mean, there's this and Wade chime in, but it's just Okay, fine. But you should know. Yeah, I mean, you know, half jokingly, you shouldn't know what's going to happen next, what the heck am I paying you for?

Bob French 34:01
Ya know, and that's, that's fair. I mean, one of the things I always think about with those folks is kind of the the incentive structure for talking heads and pundits, you know, if you get enough people out there saying enough stuff constantly, some of them are going to be right. And then they go on to have lucrative careers where they get to be wrong forever, but they call 2008. Right, or whatever it might happen to be. They don't know. You know, they may think they have good reasons to think that they can predict what the market is going to do next, or you know, what's gonna happen in six months or whatever it might be, but they don't, they're wrong. And the data is emphatic on this, you know, there's there's no skill or no meaningful skill, I should say, out there at least among you know, say mutual fund managers where it's really easy to look at the data. And you know, a lot of them are mutual fund or hedge fund managers. Um, who are out there on CNBC or something like that? In fact, you know, talking about, you mentioned Kramer something he was talking about.

Alex Murguia 35:08
I didn't mention Kramer, you you mentioned.

Bob French 35:10
That's right, I brought up Kramer that

Alex Murguia 35:12
I actually wasn't thinking about Kramer.

Bob French 35:16
But, you know theres a well known Kramer effect, you know, when he mentions a stock, or I don't know if this is still true, but a while back, when he mentions the stock, it goes up, and then just crashes right back down. You know, it's all very short term, it has no real meaningful long term effect. But, you know, kind of goes to these guys don't know anything, or they know a lot of stuff. But it doesn't get them anywhere.

Alex Murguia 35:44
And the caveat to this, though, Bob, when we say these guys don't know anything, we don't know anything, either. It's not an insult to them, it's the only issue I take is that they're kind of pretending they know. They're playing a game, they can't win. It's ultimately what Bob is saying. But Wade, I'm sorry, you were gonna say something.

Wade Pfau 36:03
Be smart people. But as Bob was alluding to earlier, market prices are determined by the interactions of the decisions of everyone in the financial markets. And there's no way for one individual to be smarter than the aggregate interaction of all investors in the markets. And so current prices reflect what is known right now. What happens tomorrow or the next day depends on the new information that arrives, and the only way pundits would be able to make correct forecasts would be if they had information that no one else had. And then information has to be more than just a general understanding of the macro economy. It's got to be real information that market players don't have available at this point.

Bob French 36:49
Which there's another word for that Wade.

Alex Murguia 36:52
No, but that guy on billions makes a ton of money that TV show that he's killing it. Yeah, the problem, right, you can't make a TV show of just, hey, it gets real boring real quick. Yeah, exactly.

Wade Pfau 37:08
Even more media has this issue of in one part of the magazine, they'll be clear that you can't really forecast the future. But then in another part of the magazine, here's our selection of the 10 mutual funds that are going to do the best job this year. That's sort of...

Alex Murguia 37:22
And not only that the best job in the dawn market ready for the rebound? You know, they they really drilled down?

Bob French 37:29
Yeah, actually, I think a really good example of this is, you know, Peter Lynch, you know, if you remember back, you know, in the 80s, you know, Peter Lynch ran the Magellan Fund. And he was, I think, the singular person who sincerely could do it, he could beat the market, on a risk adjusted basis. You know, however you want to slice and dice the data, you know, he was sincerely adding value, either that or he was just the luckiest person ever to live. So he's kind of the exception that proves the rule. And he proves the rule, because of what happened after he left. So when he left, you know, he had, he could go in and pick whoever he wanted to run Magellan, once he left and he had access to absolutely every piece of information that he could possibly want. He could see, you know, how people were, you know, how they were as workers, how they were as leaders, he could see the decisions they were making, why they were picking the stocks that they were, why they weren't picking the stocks that they weren't. He could see what's going on in their lives, who's had a tough home life who's got stuff they have to deal with, he had access to absolutely everything.

Alex Murguia 38:46
He's like Facebook, he's like Facebook,

Bob French 38:50

He did have the social graph down here. He did have the social graph down. I'm sure he still does. He's still around. But when you look at the performance of his successors, nothing, nothing really interesting. It looks like exactly what the risk profile the fund would predict. They couldn't beat the market. So if Peter Lynch who could beat the market can't pick someone else to do so, with access to any piece of information he wants. We can't do it either. You know, that skill is just not there.

Alex Murguia 39:35
The other piece to that that someone could be saying is well, okay, fine. Pick the current Peter Lynch or pick the Peter Lynch and there's there's a whole host of issues involved with Peter Lynch's trying to do no no, no, no, but I'm thinking someone may forget that. Listening in like, Okay, fine. You're not no, let's give it a couple of years. I know you're out of 8000 managers. This is The one to pick because he's gonna get us out of this and then go from there. But this is another topic, I guess, you know, we don't need to get into too much because we can we can now dig deeper like Michael Jordan picking Kwame Brown as a first number one pick who's tremendous bus? Yeah, there's a lot of like interesting side notes. But going back to the market, I guess what, what? Yeah, right. You had here, I mean, we were going off market timing, right. Yeah. So we don't. So what's when you decided to get back in? Remember that scenario where someone? Yeah,

Bob French 40:35
so I mean, what I would say is, you know, either don't get out, or don't get back in. You know, I mean, actually one of my, my first boss out of college, you know, I actually started at dimensional funds out of college, you know, the person who had headed the Financial Advisor Group, you know, was a financial adviser himself back in the battle days of, you know, the full service stockbroker, and, you know, he always went, went around talking about, you know, one of his proudest days as an advisor was, you know, when he had a client come to him, and say, I want to get out the market is just, you know, I want to get out for six months, or whatever it might happen to be, you know, he would sit him down, and say, Well, you know, it's your money, I can't, I can't stop you from doing this. But if you want to continue working with me, I have this piece of paper here. And I've written up a contract, saying that if you take your money out, you're not going to put your money back yet. Because you can't time the market. And if you want to do that, great, here you go, have a good day, no one ever signed that piece of paper, no one ever actually took the money out, because he was able to walk them through the logic here that we're talking about that, you know, we can't predict what's going to happen. What we can say is that over the long term, that there is, you know, some fundamental risk and return relationships and play here. And those fundamental risk and return and relationships are, by and large, going to be good for you, over your investment horizon, over your investment lifetime, when you're looking at retirement. It's not going to be fun all the time, as we're seeing now, as we've seen during that period during 2020, during 2008, or 2001. You know, we've seen all of these times. And that's just part of investing. So if you're not able to handle some of these short term or longer term blips, as Wade has pointed, has pointed out, you shouldn't be in the market, you shouldn't put your money into these risky sorts of assets, or at the very least, your asset allocation should be such that you're going to position yourself so you can deal with it, so that you only invest enough in stocks to get the return you need. And then kind of soften the blow, if you will, with

Alex Murguia 43:01

I, I would I would add to that, I'm going to pose it to Wade. We don't want to presuppose with Bob's answer, though this this total return strategy. And Bob, I know him well. And he's not doing that either. I don't we're not saying, hey, look, just, you know, call it a day, you know, sit on the sidelines, or go to a go to a 20/80 portfolio. Not Not at all, it's really more also, there's nothing wrong with not going back in the market. Because the way I view that is, hey, guess what you're in the wrong strategy to begin with. And you know, when you're in a hole, stop digging, kind of kind of vibe, which is what you're saying. But way that I'll pose it to you with with Bob saying the importance of making sure a strategy is in play that makes sense for you.

Wade Pfau 43:49
Right, when you're at retirement, if if what's going on in the market is just too much. being uncertain isn't necessarily that you maintain a total returns approach, but just shift to a lower stock allocation and use more bonds. Because at the end of the day, bonds can be a really inefficient way to fund retirement expenses, you might find that there is some sort of income protection strategy or a risk wrap strategy, or even the time segmentation that uses bonds, but in a different manner to cover short term expenses. There are a variety of options, and it's just important to find the one that works for you. And if this market volatility doesn't bother you, and you're okay, then that might lead to suggest me to suggest that you are more of a total return person and that would be the approach you'll want to use in retirement. But just to be clear that that approach isn't the right one for everybody. And but maybe to kind of close out today's conversation. I think there's been some subtext making the point but perhaps make it more explicit. The market is down 16% to date as we speak, what's going to happen the rest of the year and I think your point is that We don't know. It's not. It's not all doom and gloom, the market could continue to go down. It might recover like it has a number of times historically where it's been down and gone back up. But we can't fundamentally say, and therefore, we don't know, we don't try to forecast what the markets going to do we stick to the strategy. Right? That's ultimately why you're saying kind of discouraging this idea of market timing. Because we fundamentally don't know what the future will bring.

Alex Murguia 45:31
100% and I got it, I say this with with with, I don't know what the right word. But look, the easiest thing for us to do is to say, hey, look, the valuations have gone from this P E multiple to this current P E multiple, that's a big drop. Stocks look valuable right now, there's not much left for the drop, or I could have said they're still, they're still historical, another down leg waiting, the easiest thing for us is to kind of write that kind of narrative, or better yet even go crazy and start talking about resistance levels. And this kind of just silliness. No, I'm serious. That's the easiest thing for us to do. Because you would be listening to it thinking, okay, these guys got it figured out, or they have a plan. What we're effectively saying is you need a dose of humility, take a step back, and let the markets do their thing. That's what we've signed up for. I mean, that's, that's, that's the, yeah, that's the bottom line without any color behind it, Bob.

Bob French 46:35
Yes, absolutely. You know, I mean, I think on that humility point, you know, I mentioned that my first boss, back in those battle days when he was a stockbroker, he was the guy on the local news, kind of doing the Market Report. The thing is, he will always tell the story, I don't know 100% how true this was,

he always liked a good story. But he would always say he went in around noon. And he recorded two segments, you know, one for if the market went up, one for if the market went down, and they just played the appropriate one. I don't know if they ever screwed it up and played the wrong one. But that's the story. He was telling me. And that's kind of the situation we're in, you know, over the longer term, we can make statements and short term, not so much.

Alex Murguia 47:22
So he just peppered it with the current events that were happening, the news day events, and he attributed Well, this will affect it on the upside or the same event will affect it on the downside and whatever happened happened.

Bob French 47:32
Yep. Exactly.

Alex Murguia 47:36
That's what that's what happens every day on power lines and all that kind of stuff. But yeah, so it is. All right. We're in our we went a little over our usual time. More to follow. Thank you, Bob. For for having me chiming in. Wade.

Wade Pfau 47:55
Yep. Thanks, Bob. And thanks, everyone, for listening. Hope you have a great week. Thanks for listening to Retire with Rtyle.

Bob French 48:05
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.