Sound Financial Bites 055 - Paul Adams

Episode Transcription

“When we’re investing, the best thing we can do is first figure out our own personal strategy.”

Hello, Paul Adams here. Welcome to Sound Financial Bites, where we help you with bite-sized pieces of financial and life knowledge to help you design and build a good life.

Hello, and welcome to Sound Financial Bites. My name is Paul Adams. I'm your host of today's episode and the president and CEO of Sound Financial Group. I am so happy to have you with us on today's podcast joining in, getting a chance to get some short learning. Now, you may have already noticed this is a shorter podcast than usual, and there's a very good reason why. We're just going to hit some targeted targeted thinking around the media in what it attempts to do for us, or to us as it relates to the way we would handle our investments.

You see, when we're investing, one of the best things we can do is, first, figure out our own personal strategy. Meaning, how old do I want to be when I have financial independence, and how many hours a week am I going to work, and where do I want to work? All of those things are incredibly important and that's where all of our financial strategies should start. And if you've ever had a hard time keeping financial commitments or building financial strategy, it's probably because it just didn't start with what personally is important to you. Then, you move on to building your financial strategy.

Building your financial strategy is the kind of thing that you can hold that strategy because you know it's fulfilling on your own personal aims. So, that's pretty easy. The problem is if we don't have all our personal aims squared away and then we get exposed to media, what we almost always will end up doing is we'll just accept somebody else's opinions, interpretations, and inevitably we'll end up taking action, that maybe we shouldn't take with our money. Or, things that might absolutely thwart what would be important to us if we took enough time to articulate what was important to us.

What we're going to do is talk about a little bit of a sensitive subject still, which is the election of President Trump. But, I'm not going to talk about his election. I'm going to be talking about what the media and what many of those prognosticators were saying prior to his election. So, you'll have to excuse me. I'm going off of my notes here a little bit, and links to all of these articles are actually going to be posted in the show notes. So, if you want to go in and read these articles more deeply, you certainly can.

Now, to set the stage, this is arguably, at least in my lifetime, the most contentious election that we've seen, and also the most surprise upset anybody was expecting. So, prior to the election, fortune.com's Katie Riley reported that Citigroup said a Trump win is going to have negative impact on the stock market, that the S&P500 would fall 3 to 5 percent. Evelyn Cheng said, on CNBC, the day before the election, JPMorgan, Barclay, Citi all expected a Trump victory would have a negative impact on the stock market. In fact, Barclays went so far as saying the S&P500 may fall 11 to 13 percent.

Now, here we are, starting and into February of 2017 and that has not happened. None of those prognosticators, so far at least, were correct about, somehow, the market being decimated by Donald Trump, or by any particular binary event. This is not a Trump conversation. I want to be absolutely clear on that. What this is is a conversation about how any time there is a "one way or the other" situation, there's always prognosticators saying, "If this happens, then this is what it's going to do to the market. And if that happens, it's going to do this to the market," and they're all out there all the time saying these things. It's not about whether or not they're correct or not. Many times, they are not correct. In fact, what it's about is making sure that people are willing to move their money.

If you watch any of these shows where they have the stock market prognosticators, whether that's a show host themselves or somebody that they interview, what you'll almost always see on that business or market watch show, is you're going to see a lot of financial institutions advertising who benefit from you moving your money.

You see, we, as people who would watch the news or watch one of these shows, or read The Wall Street Journal or any other major publication out there, we are not their customers. We need to get very clear about that. We are not the customers of these media outlets. The customers are their advertisers. So, when the customer is the advertiser, it changes everything. It's like, "Wait a second. Then, who am I?"

"Will [these claims] hold up to both math and scholarship?"

Well, I, and you, and all of us are the product that that advertiser sells to all of their advertisers. So, that media outlet sells us to the advertisers. They say, "We have X amount of viewers. They have this kind of income. This is how they look demographically," and they sell us to their advertisers, and the advertisers advertise.

So, they need to create a conducive environment in which we're going to be willing to move our money and transact in some way. By the way, this also includes all the people that make products. Because, it's sure, if the markets are really uncertain, I don't know what's going to happen, I'm going to take $100,000, I may as well just buy that Mercedes instead of putting it on the market, because it's going to drop anyway. Might as well drive a cool car while the market drops. That's what we have to be so clear about.

One of my favorite interviews was actually Mark Cuban, a guy that I've really enjoyed watching him in interviews. But, he made a huge stock market prediction, which was he was going to hedge over 100% of his portfolio, if it looked at all that Trump was going to win. Meaning, he was going to effectively ensure or hedge the entire portfolio more than 100%. Meaning, he's betting the market goes down significantly, and that would lead him to a significant gain.

Now, if he actually ended up doing that, his bets did not work out, at least, not so far, and it doesn't matter if they work out now or they work out later, because it's so easy for any prognosticator to go back and say, "Here's what happened and here's where I was right." So, to somebody that prognosticates Trump, Trump's election was going to destroy the markets, if one year from now, there's a stock market drop, you can nearly guarantee any of the prognosticators are going to say, "Well, I told you this was going to happen a year ago," and yet, at that time, in the context of it would drop immediately after the election because of whatever reason they gave.

We need to be clear that all of the people offering opinions, we need to then take those opinions. Now, this includes all the media, but also includes our well-intentioned uncle. It includes the well-intentioned person, the office next to us at work, and it includes the well-intentioned opinion of our neighbor. What we need to do is check all of those against whether or not it stands up to independent academic analysis and will hold up to indisputable math.

So, will it hold up to both math and scholarship? It's always worth testing, if you're one of our clients, you ever see anything on the news that, "Oh my gosh. I don't know what this is going to mean. My neighbor said X." Let's just take that opinion back into the laboratory, if you will, and check it against math and scholarship and see if it's likely to work out. We want to be aware of those things out there that are economic truths that we can use. But, the things that are meant to simply be opinion that may inflate us into taking action, that may not be as good for us. We need to just be aware of that.

So, as I said, all these articles that I've referenced are right here in the show notes. I encourage you all to take some time, if you have any additional questions. The Mark Cuban interview is kind of interesting. He's standing there in an Iron Man t-shirt during the interview. Although, it really is interesting to see how sure people are about what the market's going to do, and none of them really know and we don't know. What we do know is we can embrace a market-investing philosophy that academically, historically, and mathematically has really given us the best opportunity to participate in the market without taking uncompensated risk. We have to take risk when we're in the market, but we don't have to take too much risk, and that's what we'd love to help you with.

"It's interesting to see how sure people are on what the market is going to do, and none of them really know."

If you're not a client of ours and you want to explore that, just give our office a call. We'll do the 10-minute triage call and see if it would even be appropriate for us to talk further. If anybody's willing to invest in themselves long enough to listen to our podcast, we're willing to invest back in you to do that. You can get us at info@sfgwa.com.

So, quick review. What I want all of you to do is just reflect on your own personal aims first. What does my personal life look like? What do I want my career to look like? All that. When do I want to stop working? When do I want to be financially independent? Then, assess any final decision you're making against that. Let that be your plumb line and then assess your decisions on that, not based upon anybody's opinion.

Not even somebody saying, "This will produce a better rate of return than that," because it's very well, it could mess up one of your personal ambitions. Somebody who wants to have a ton of free time, wants to work three days a week, and never be interrupted when they're with their family, owning a large real estate portfolio, unless you also have a strategy for hiring your property management company, might be something that could derail the free time you wanted with your family. So, you want to check. There's very, very good things that we could that could actually disrupt the outcomes we want those investment tools to have for us and have for our lives personally.

So glad you could be with us today, and I look forward to having you as a guest, as a listener, as somebody that I feel like I'm inviting into lunch with us, and just talking about money, and we're just really glad to have you with us today.

Hi, Paul Adams here. I want to acknowledge you for taking the time to invest in yourself by listening to our podcast. Not everybody does that, and out of my commitment to you, I will take just a few of our podcast listeners between each of our episodes and spend time with them one-on-one. And if you think you'd like some of that one-on-one time to learn more about our process, our philosophy, or whether or not we'd be a fit to work together, just email info@sfgwa.com - that's info@sfgwa.com - and I'll be more than honored to take that time with you. You can also go to our website, www.sfgwa.com, download the first three chapters of my book, see upcoming in-person events that we have, or listen to past episodes. You can also go to our Facebook page and engage us there, our LinkedIn, and send us questions for upcoming podcasts. You might hear one of your comments or questions on a future podcast. For our full disclosure, you can check the description on this podcast, or on the podcast series, or go to our website. Have a great day.

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