> *"It's the comparison trap. Comparison is the thief of all joy. Now, we teach that to our children, but we oftentimes forget. Why? Because somebody mentions it at a cocktail party."*

Paul Adams: Hello and welcome to Your Business, Your Wealth. My name is Paul Adams, CEO of Sound Financial Group. And I am joined by co-host Cory Shepherd, President of Sound Financial Group. Cory, I'm excited about today. We've had a chance to discuss a little bit about what we're gonna cover, and I think this is going to be an intellectual, whatever the opposite of a trainwreck is, so I'm glad you could be here.

[chuckle]

Cory Shepherd: I'm glad to be here too. And I just wanted to congratulate you on giving me my own identity, not stealing my title, or anything like that. We've had some problems in the past folks, 'cause now I'm a co-host, I'm the president.

Paul Adams: The audience never knows, we cut all that out. It's just like, [chuckle] I've said it right every single time. Now if only...

Cory Shepherd: One time I'm gonna secretly not let them edit it out and then tell them to put it back in...

Paul Adams: If only my conversations with my wife and children could have post, 'cause [laughter] I would sure like to rewind a few of them and delight... Delete some comments. Okay. Well, today, what we're gonna talk about is the idea of the market. And one of the things that we hear periodically is people say, "Well, how do your investments do compared to the market? How are my investments doing compared to the market? How is my 401K doing compared to the market?" And too often, people have this mindset of trying to beat the market. And it's largely because the media has wired you to think that way. And today, we're gonna pull that apart just a little bit.

Cory Shepherd: And first, for this week in planning, we have a little bit different of a theme. Instead of one article, it's gonna be a lot of articles. And this is a good segue into our main topic for today, so I just want you to...

Paul Adams: Jordan, if you could cut to my screen, so everybody can see this is Cory that's talking.

Cory Shepherd: So I want you to just Google, or Bing, or whatever internet search you want, "What is the market going to do today?" Now as you start typing, I bet it auto-populates and it gives you a couple of options. It probably also gives the option, "What is it gonna do tomorrow?" 'Cause a lot of people wanna know that too.

[laughter]

Cory Shepherd: And you'll come up with something in the range of 1.4 billion results.

"The fact of the matter is, as soon as you choose that you want to increase your financial education, one of the first things you're gonna be most confronted with is this constant barrage of market activity."

Paul Adams: Let me see. Yup, 1.4 billion, it took 0.61 seconds, thank you, index [02:15] ____ Google.

Cory Shepherd: There you go. Thank you, Google. So, it's out there. Everyone is writing about this, everyone is wondering about this. And I just, I'm... I'd be curious [chuckle] if there was one person that was getting it right all the time, wouldn't it all kind of funnel up and collect with them, and other people would just stop writing predictions 'cause they're like, "Oh, the oracle knows, and so they're writing it every time. I don't need to add my two cents, 'cause I'm just gonna be wrong, and everyone's gonna know I'm wrong."

Paul Adams: Exactly right.

Cory Shepherd: Except they never get that feedback. There's...

Paul Adams: No.

Cory Shepherd: Yeah.

Paul Adams: Yeah, and it's that idea that, think what will the market do today? 1.4 billion results, and some of them are correct. That's the thing we have to be aware of, 'cause periodically, these people are gonna come out and they're gonna say, "Oh, look at all the times I was correct." There were 1.4 billion predictions just for today. Maybe in a future podcast, we'll narrow that down to where you can save timeline and only today, maybe we would narrow it down to yeah, 100 million for actual today. But that doesn't matter, because somebody's going to be correct, and with that many people being able to be chosen from, many, many, many people are going to be correct many, many, many days in a row. Statistics say that should happen. And yet, most of the time, in fact, all of the time, there's no way to know who would've done well or whose selections would've done well in advance, which is where it takes us for today.

Paul Adams: You see, you want your money to grow over time and you want to have a strategy for getting to way... Where you wanna go. But the problem is, it doesn't matter what other people are doing or getting, it's back to something that's now traveling social media a little bit that we said on a prior podcast, which is comparison. It's the comparison trap. Comparison is the thief of all joy. Now we teach that to our children, but we oftentimes forget. Why? Because somebody mentions it at the cocktail party, and a little bit of us goes, "Oh, are we not doing as well?" Or somebody mentions it on the news that some market went really well, and we go, "Oh, we missed out on that."

Cory Shepherd: Or your brother, or sister, or neighbor, or your stepfather, whoever, got something cool and it's like, "Oh, should I be doing that too?"

Paul Adams: Well, many of you had a chance to meet Jeff Miller on episode 139, who

"The more money you set aside in assets means, automatically, the less money that you're consuming and living on every day. And, the lower that money is – the actual spending every month – the less work your capital at work has to do in order to put you in the position that you are at financial independence."

works here at our firm, The Millionaire Next Door. And me and my family had a chance to watch his dog this weekend. His... He and his wife went down to Texas on a... To actually go to a memorial. So we watched their dog over the weekend. And that dog is such a unique example of what most entrepreneurs and business owners go through. You see, as an entrepreneur, you have something similar to what this dog has, which is a high prey drive. You have this wiring to find opportunity, to chase opportunity, to get after things, because it looks like it's going to be good once you catch it. Well, as an example, Riley didn't have to be walked at all this trip, because she must have done 100 miles a day going back and forth as the squirrels teased her from the fence. And it didn't matter that one squirrel, she was almost up to, and then another one would run by and she would just go after that one.

Paul Adams: Well, my daughters were in the backyard and one of them took a peak around the fence, and saw some bunny rabbits, like some baby rabbits in the front, in the cul de sac. So one of them goes out, tells the other one, Reagan tells Vivian, Vivian comes out, doesn't close the gate behind her. Riley is now loose in the cul de sac. Now, I'm super proud of my daughters. One of them stayed locked on Riley, knew where she was. The other one ran inside, Vivian came and got me. I go rushing out in the cul de sac to get Riley.

Paul Adams: Riley is uncontrollable because she now has this environment of unlimited targets, some of which she's seen, the rest of them, she's smelling. And it is literally like if you've ever watched a movie where there's a missile and it loses one of its fins, and it just goes everywhere, one of those Saturn missiles from Fourth of July, that just goes every direction and everybody's taking cover. That's what Riley was like in the cul de sac. Un-retrievable, because why? Because that very primitive part of her brain, totally triggered, so, she's not coming back to me. Now...

Cory Shepherd: I wanna...

Paul Adams: She is a very well-behaved dog. She...

Cory Shepherd: I want... I feel like someone who's... People who have kids talking to people who are just watching kids. I own a dog. I mean, you've owned dogs in the past. I would say, entrepreneurs are unique, but Riley is not a unique example. [chuckle] Like my dog Kubo here in Chicago, I... Running with him this morning, there's so many dang rabbits. I'm trying to train this guy to be good on the leash, but if there's a rabbit anywhere in sight, and these rabbits don't, they don't move. They know that we're not gonna let the dogs get them, so they just sit there and I can't... So...

Paul Adams: Tempting.

Cory Shepherd: Oh my god. Tempting.

"There's an old saying in news media that if it bleeds, it leads. Similarly, when it comes to the market, if the market is climbing and it's killing it, then they're going to be pointing to that. And if something is falling and is really dramatic, they're gonna point to that no matter how small it is."

Paul Adams: Well, what a great example. How... What is it that limits Kubo from running out into traffic? What stops him from just going absolutely roughshod?

Cory Shepherd: We've got a leash and a nice collar that sends some feedback to him to say, "No, that's not okay."

Paul Adams: Yes. And think about that, that that is framing. That's what we're gonna spend our time on today, is that, you need to build framing to keep you from inappropriate action. You're already a successful business owner, entrepreneur. You have a prey drive that's going to have you look for and potentially find opportunities, many of which won't work, especially when it's like market timing, the market's too high, I don't know what the market's gonna do. All of that stuff is constantly bombarding us but if we don't have our own leash, if we don't...

Paul Adams: If we go unleashed and chase every opportunity, odds are it's not gonna work out well when it comes to our long-term financial ambition. And even if one of them works splendidly well, like you get something that just takes off and some investment you made you made $30 million, guess what you need as soon as the $30 million hits your balance sheet? You need an actual disciplined strategy. Otherwise, it's hitting the lotto and then just playing the lotto as your next investment.

Cory Shepherd: I like to tell clients, "We need a plan before it lands." The plan needs to be there before the money hits because like Kubo, even with the leash, the feedback, the strategy as a guideline, he can get so drawn to the rabbit that it doesn't do anything. It's designed to tighten up when he pulls so that he gets some feedback, but he won't hear anything else in the midst of that huge search. So we've gotta have that strategy ahead of the lotto coming, ahead of that money landing, otherwise it might be too late.

Paul Adams: So we're gonna give a few thoughts for all of you today to consider about how do you build your framing? How are you gonna view the world to allow you to deal with all this financial information? 'Cause fact of the matter is, as soon as you choose that you want to increase your financial education, one of the first things you're gonna be most confronted with is this constant barrage of market activity. And so, how are we gonna get away from the "market" to then be able to make good financial strategies? So first, what you have to do is put an idea together about how much capital at work. How much money actually needs to be there at some point in the future for you to be in a position that you have definite financial independence and a work optional lifestyle.

Paul Adams: The thing is, if you're hearing this and that sounds like an unfamiliar question, and you do not have the answer ready to hand, that's okay. Most people do not. Even people that are a subset of the population who do talk to us and do apply to become clients of our firm, most of them do not have an answer for this. So when you look at the entire population, most everyone doesn't.

“Your personal balance sheet is what we have to focus on. The business’s job is to build that balance sheet. Your job is to build your business.”

Cory Shepherd: Well, and it's, we see it with all the business owners, we work with all the time. It's like you started in a motive "I just need to grow," and it's still there and it's just more and more. But what your business needs to do for you, what kind of income you need has a lot to do with what you frame as the life that you want. And so you get to accept or decline in life, actions and opportunities based on, "Is it leading towards where I want to be?" Because the more you set aside and the less that you are currently living on, those two, one goes up, the other goes down and they come together to say, "Here's the work that your capital at work has to do," and if you know what work that has to do, then you can choose what kind of strategy you wanna go into to shoot for whatever kind of rate of return, maybe you don't need as much risk as you thought you needed to get the kind of rate of return that you need.

Paul Adams: Well, and you can go back and listen to our episodes on the 4% rule, sufficiency surplus, superfluous, get an idea of capital. But the easy calculation is you can take a 4% distribution. Take the amount of income you want, divide it by 0.04 and you'll get a sense of how much capital at work is required. But then, you have to think, "Oh. I've already got $2 million," let's say or "$1 million" or "$500,000 and now I'm adding X amount per year. What's my ramp look like? What's that gonna grow to?" And get an idea of what it's going to take for you to get to where you wanna go. If you don't have a way to solve that, or a way to do that math now, reach out to us. We... Our contact information is all over this episode and we can have that conversation with you about what kind of run rate it will take for you to get to where you wanna go, because you need that core strategy.

Paul Adams: And consider the more money you set aside, by the very fact you're setting more money aside to assets, the less money you're living on, you've cultivated contentment more. You've gotten out of the comparison trap, which means, by living on less money, the capital at work you built doesn't have to work as hard to give you the financial independence that you're after. I'll say that one more time. The more money you set aside in assets means automatically the less money that you're consuming and living on every day, and the lower that money is, the actual spending every month, the less work your capital at work has to do in order to put you in the position that you are financial independence. Okay.

Paul Adams: And we talk about that a lot more in other episodes, but I think that that's key because here's the thing, you wanna be conservative in your estimates, maybe 7% in a non-taxable account, five or six in a taxable account, depending on how you position them and see how they're gonna grow. Get an idea of what your strategy needs to be for the future. Now next, I want to point you to something called your personal economy. Now, I was reading, I ran across a peer of mine's LinkedIn profile, a guy named Justin Bennett, out of New York. And he has a little kind of executive summary on the idea of personal economy, that it doesn't matter what it is that the rest of your world looks like, what the world looks like, what does your personal economy look like?

Cory Shepherd: Woah, woah, full, full stop. That is huge. I'm just letting this soak in and I hope everyone else listening is, as well. We talk about the economy, the market overall, but what does your personal economy look like? That is a huge distinction. I can just think of so many implications. We're probably gonna have to have a pod... Whole podcast series on this, Paul. But inflation is something that gets thrown out there as a metric in the median, and usually Consumer Price Index is used to measure how inflation goes up and down, which I kind of think the CPI is really just the government's way to decide how much they wanna raise pensions and employment...

Paul Adams: [chuckle] Or not.

Cory Shepherd: Or not, so it's not really a great measure of overall inflation, but for each of us individually, the less you consume of all those consumer goods, then the less... The lower your personal economy inflation rate might be. And so, gosh, that's amazing.

Paul Adams: I was gonna say our inflation for podcast production has gone up tremendously in the last year as we've moved to Chicago and now, we have a producer that works on the show. And now we have... And then we have a whole social media team plus our podcast production company we've always had. It is a far higher inflation that we've experienced at Your Business, Your Wealth, than the rest of the economy or the rest of our lives. That is a big deal. So, it doesn't matter so much. The trade deals...

Cory Shepherd: No.

Paul Adams: Somebody else got an IPO.

Cory Shepherd: The rate of... Well, the rate of return that anybody else gets really doesn't matter.

Paul Adams: At all.

Cory Shepherd: What matters is the performance of your balance sheet, your strategy, your life, designing what that road needs to be.

Paul Adams: Your objectives' about the future, your family. What do you want to see happen for your children? It doesn't matter what happens for other people's children. [chuckle]

Cory Shepherd: I was talking to a young guy, early 20s, last night at dinner about a retirement account he just started. And he's like, "Oh look at this, I just lost $20." I'm like, "Well, not if you didn't sell it, and let's talk about this. If the market's going down, and you're putting money in every month, you're gonna start celebrating when you see it go down, because you're buying in at a cheaper price." And then his friend said, "Oh it's like a BOGO on a stock." And I'm like, [chuckle] "Yeah, it's like a buy one, get one deal when the market goes down...

Paul Adams: Oh, I didn't know what a BOGO was, thank goodness you explained that. I was like, "I'm gonna ask though for the whole audience."

Cory Shepherd: No, no. I know, I know. So, for that young person, putting money in every month at the beginning of their career, seeing the market go down is something they might celebrate in their personal economy, but for an 80-year-old drawing income from their portfolio, seeing that very same market movement, it's a recession in their personal economy. I love this.

Paul Adams: Yes.

Cory Shepherd: Yeah, and we better move on from personal economy or else I'm just gonna take the whole episode with that.

Paul Adams: You go ahead and take it. [chuckle]

Cory Shepherd: But what, what does matter, is what we need to really focus on in this, right? Your objectives on the future, your family, your health, 'cause without your health, not a lot else matters in the personal economy.

Paul Adams: Your business, your career.

Cory Shepherd: Your business, right?

Paul Adams: And frankly...

Cory Shepherd: The amount of money you save or add to your assets each year.

Paul Adams: Yeah, that the amount of money you put aside toward assets, that we say a lot, we cannot say it enough in a society that ignores it. The most important thing that you will do is set money aside. Now, I had a conversation with a guy who was a 60... I think when I met him he was 68 years old. He had literally been all the way back to stock jockey days, like he was an advisor now, but he was a guy... This is 15 years ago. So he started in the business from where we are today, 55 years ago in his 20s.

Cory Shepherd: Wow.

Paul Adams: And I was brought in to give him a different look at his finances because there was some estate planning concerns and our whole macroeconomic model made a big difference. And he thought, he'd been focusing on rate of return, and hadn't looked at the entire picture. And so, I was brought in to consult on the entire picture. And when I was... And I was asking him some questions about where his finances were, etcetera.

And I said, "Can I ask you, you've been involved in literally being the guy that brought the company to the brokerage to go public." Like he had been involved in some really big deals, had the chance to be in some IPOs. And I said, "Can I ask you, when it's all said and done, you're now worth like $9 million, what do you think is attributable to the level of success you've had that you now have a nearly eight-figure balance sheet?"

Paul Adams: "Was it rate of return because of the great stock picking that you did?" Remember, he is a stock picker, "Or savings rate?" And almost before I could say savings rate, he just cut me off. "It was the amount of money I saved." Not in a mean way, but that's how clear he was. And I cannot say enough about the money that you all set aside to assets is the biggest amount of agency and the greatest control you have in your entire life.

Cory Shepherd: Remember, I even said it wrong the first time today. It's not save, 'cause save has some connotations in our culture that really we save up to spend, so we change the rules. Change the conversation, say add to assets. And you can reference our Wealth Coordination Account podcast, that's episode 131, to get some more details there. And it's all about that, that rate of asset building, not the rate of return, and how you wanna design your life. So we also have my white paper on our website, Money, where humanity and hard numbers meet, which is a great download for you to help jumpstart your thinking about how you wanna go about to design and build a good life. So with that, I think it's a perfect time for a commercial. We'll hear a message from Sound Financial Group, and come back to you in a minute.

Paul Adams: So lastly, with this strategy in place, what we hope you can do is resist this fallacy of, "How am I doing compared to the market?" But that having been said, what we should do is talk a little bit about the way the news markets to us. Because odds are, you are comparing. When you say, "How am I doing compared to the market?" You're comparing to some index, or for that matter, some commodity. I've actually, from years ago, I just hear people talking about, "Oh gold is doing really good," or "Silver is doing really good," or whatever, but they're always focused on just one asset doing well. And then comparing that to the academically allocated globally-diversified portfolio. But here's the key: The news, the media, they are constantly gonna be talking about the market, whichever part of the market is moving the most, or is the most sensational.

Paul Adams: There's an old saying in news media that "If it bleeds, it leads." Well, it's similar when it comes to the market. If the market is climbing and it's killing it, then they're gonna be pointing to that. And if something is falling and is really dramatic, they're gonna point to that, no matter how small it is. Remember Greece? When Greece was this huge trainwreck and people are protesting in the street, it didn't matter. It didn't matter because Greece is such an unbelievably small part of the world economy, but the more sensational it could be, the more "maybe this is gonna lead to the end of," whatever, the end of the world, the end of oil, the end of dollar-based security. It didn't matter. It just led with, it's all some kind of huge problem.

Paul Adams: And why do they do that? Why do they do it? They're either gonna say, "Some part of the market's doing really well," or "Some part of the market's doing really bad," because they need to appeal to the most primitive part of our brains. They're trying to appeal to the fact that, "The saber-tooth tiger is gonna come out and get me, and I don't have time to think. I need to run and move right now." Because if they can trigger that part of your brain, you're more likely to A, stick through the commercial break, and B, transact with the people who have the commercials. So that's one part of that primitive brain they're trying to get to.

Paul Adams: The other part they're trying to get to is what we'd commonly refer to as greed, but it's really just survival. Like, "Look at all these apples on these trees. I just walked into an area as a tribe of people wandering the wilderness and there's all these apples. I need to sit right here. And we need to eat all of these apples as soon as we can, because if we don't, they're gonna rot and go away or the birds are going to get them, so we need to stay right here and eat as many as possible... "

Cory Shepherd: And there's really two variations...

Paul Adams: "And they will spoil if I don't."

Cory Shepherd: Two variations of that. The, "This is going to be amazing. I gotta run towards it right now." Or, "This is... Area is gonna dive down. I need to get out of the market right now."

Paul Adams: Exactly right, and this is why there's a big open secret. If you look at the presidential elections, right? It is a totally open secret that ratings go through the roof. News organizations make more money in this window we're about to go into than ever, and oh, by the way, have you noticed that whatever news outlet you happen to listen to, they are saying, consistently and predictably, that it's the other side that's the saber-toothed tiger.

[chuckle]

Cory Shepherd: And what... And the reality is, if you look at an academically allocated globally-diversified portfolio, and even in the worst of 2008, the worst economic conditions that we've seen in our modern age since the Great Depression, even that portfolio would have rebounded totally in less than 24 months so...

Paul Adams: Absolutely. Absolutely. And so in closing, here's what we want you guys to get from this session. Number one, when you've grown your business and then sold your business, you're gonna retire. You're gonna be in your old age. You're gonna have your financial independence. You're gonna have your work optional lifestyle. And when you do, it's not gonna be the economy you live on. It's not gonna be the market, whichever one the news media happens to be pointing to at the time. It's going to be your balance sheet. That's why here on Your Business, Your Wealth, we're talking to our entrepreneurs and founders constantly about there's all these distractions, all these things you can get into, but what really matters, your personal balance sheet is what we have to focus on.

Paul Adams: The business's job is to build that balance sheet. Your job is to build your business. But if you're not also intentional about building your personal balance sheet, it won't matter how successful the business is, because if you build the business really, really well, you get a really great exit, but you haven't developed all the habits, practices and principles that need to land on your personal balance sheet, you'll be slightly better than the lottery winner, because the money flows in, and all the habits, practices and disciplines that need to be there to preserve that wealth won't be there because your investments' job, your personal balance sheet's job is not to get you to retirement, your job... Its job is to get you through retirement.

Paul Adams: You see, even if you're listening to this and you're 60 years old right now and you're near the end of your career, you're thinking about selling your business, it doesn't matter because if you have good health and you continue to take good care of your health and you're in the upper echelon of net worth and assets, I've got news for you. You're gonna make it like another 30 years. That does not mean you have some short investment time horizon, because you're likely to live out into your 90s, even if retirement is right around the corner today.

Cory Shepherd: So we sure do appreciate you being here with us today and digging into this topic with us. If you haven't yet, or if you have before, we'd sure love to know what you think of this or any other episode. We'd really love it if you would give us an honest review on iTunes or wherever you're listening, and we have a thank you for that. So just an honest review and a screenshot of that review, email that to info@sfgwa.com, and we'd love to send you a copy of "Sound Financial Advice," Paul's book, "Cape Not Required," my book, or "Clockwork" from Michael Michalowicz. Just make sure to let us know which one you want and send us an address to mail that book to, so we can get it to you. As always, we hope this has been a contribution to help you design and build a good life.

Each week, the Your Business Your Wealth podcast helps you Design and Build a Good Life™. No one has a Good Life by default, only by design. Visit us here for more details: yourbusinessyourwealth.com

---

Each week, the Your Business Your Wealth podcast helps you Design and Build a Good Life™. No one has a Good Life by default, only by design. Visit us here for more details: yourbusinessyourwealth.com