Bat-Socks, Vegas & Conservative Investing

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A simple-to-understand, non-Wall-Street approach to conservative investing

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ISBN 978-1-105-63647-9

For those wishing to learn more about the ABC Planning process, The ABC Model of Investing, and The ABC's of Conservative Investing Workshop, please visit our web site at www.planningwithabc.org.

To Diane and Tom,
Who am I without you?

- Acknowledgements -

While it is hard to thank everyone who has contributed to this effort, I want to acknowledge a few special people that really made the book possible.

First, I want to thank all my client-partners who, over the years, have put their trust in me for their financial needs. We have shared a lot together, both life and death, which tend to be big issues. You have taught me so much and I feel blessed to have known all of you. I know if I tried to list here all the client-friendships I've developed, I would run out of room and still leave someone out, so I won't even try; just know you are all greatly appreciated. I have to mention Sylvio and Lenora; you two have gone far beyond the call of duty, encouraged me greatly, and I treasure our friendship.

Second, as I have trained thousands of agents over the last 10 years, I would be remiss if I didn't thank all of you for what you have taught me. Tom J., Navi D., Chris S., Tom M., Mike L., Steve D., David &Trina S., Rod A., Bill W., Chuck V., Cam D., Patrick W., and so many more; you have trained me well, so thank you very much. I have to also recognize the staff and marketers at Dressander & Associates for putting up with my craziness over the years. Cheryl, you make the whole thing happen daily! Thank you! Tom and Caroline at Baseline, you have been behind the scenes cheering me on and doing the creating the "image." Thank you so much. I can't thank my administrator Stefanie Yuen enough for covering for me during my book-writing "disappearances." I have been incredibly blessed by all of you. Mike Dressander, you have made me believe in myself from the very beginning and have an extraordinary ability to make dreams turn into reality. You are

an incredible friend, mentor, and dare I say…silly man! Thank you for making this even possible! (Love, Gunner).

The last two are really the first two. Diane and Tom, you have gone way beyond the call of duty to help me write this book. Tom, I really couldn't have done this and I wouldn't have even started it if you didn't forgo a summer job and give your summer to me. You are an incredible young man, gifted in your chosen profession, and no one could have a better son. Our relationship is more than father and son, but you already knew that. I love you beyond words.

Diane, where do I begin? Don't worry, I won't embarrass you in print, (too much). Thank you for your belief in me. You told me years ago I should write and encouraged me in doing so year after year. You have given of yourself tirelessly while putting up with my shenanigans time and time again. You have fought the good fight alongside me and I'm quite certain my clients love you much more than they care about me. I could go on, but you are the love of my life and I'm not afraid to have the world know it. For all you do and who you are, thank you and I love you.

I really do wish my mom and dad could have seen this project, but they passed away in the last year. I am truly a result of their love and belief in me. I miss them terribly, but will see them again I'm sure.

So, that's it. I'm sure I left somebody out….oh yes, the crew at Caribou Coffee in St. Charles, Illinois which has been my secret writing get-away, thank you very much for your "best-in-class" service.

Okay, I'm sure that's it now. Thank you everyone! Oh, and …

- Introduction -

Mashed Potatoes

I can't tell you how many people have asked me what my book is about. Those who are professional writers tell me I should be able to answer that in one sentence. Ha! I have never answered anything in one sentence. I know I'm long winded and love to hear myself talk, but one sentence? Really?

I don't think so.

I remember sitting at the dinner table when I was 5 or maybe 6 years old in Missoula, Montana. We lived in a great old house with a coal room in the basement (a very scary place), with all the bedrooms upstairs. The house was on a corner, had a big apple tree in the back yard, and creaked like an old rocking chair.

Sitting at dinner, stuffing myself with mashed potatoes, fried chicken, and trying hard not to eat my peas, I listened to Mom and Dad talk about their day. I can see them in my mind's eye discussing who knows what. I say that because I don't remember a thing they ever said at that table, only that it sounded important. Most nights I would eat and listen, then…fall asleep. Right at the table with my face planted in the mashed potatoes. I would wake up in my bed wondering how I got there and why my pillow smelled like gravy.

So, why write a book on conservative investing? Simple, I don't like what's out there in the market. It's the same old blah, blah, blah. And it's boring blah at that! It sounds financial, which isn't surprising, but most of it makes me yawn. Although I do love the titles that promise to make you rich in three easy steps, or "How to Pass on Millions to Your Heirs" or "Ten Ways to Blow All Your Money!" It seems there is more fluff than substance and the substance is so boring it makes me fall asleep in my mashed potatoes.

Who's this book for?

I write this book for the age 50 and uppers. Some of them have lost their "uppers," but not lost their senses and want a down-to-earth, easy-to-understand way to look at their finances. I mean do you really understand what your broker is saying? Well, maybe, but I think you could understand a lot more if people would just speak plainly, in terms we all are familiar with. Standard deviation, beta, and means reversion are terms foreign to most, yet are used daily in the planning community.

When I was a youth pastor I used to have to explain deep theological concepts to junior high students. Now that's a challenge! Wall Street jargon is easy in comparison. I believe if a junior high student couldn't understand the concept, then I ought to explain it in such a way as they could, using stories and media to put the concept on their level. If they still didn't get it, I would reword my explanation, tell a few more stories, and keep on trying 'till they got it. The problem is not the junior high student. If you are having a hard time understanding Wall Street, it's not you that's the problem.

I think this book is for those who believe Wall Street "explanations" have become disconnected with Main Street; that Wall Street is a broken culture. I believe Wall Street says one thing and the average person sitting in front of the television says, "Huh?" They are reasonably intelligent people with a lifetime of experiences and are not stupid. Yet, when it comes to finances they're made to feel like bumbling fools in need of a "real professional." Yeah right, someone who will take their money and do what's best for themselves, their company, and everyone else but the investor. The Wall Street philosophy of "Greed is Good" is rampant throughout the financial community.

We live in crazy times—upside-down times when all the price tags in the store seemed to have been changed overnight and no one has noticed. Where a pair of socks has the price tag of a video camera and a suitcase the tag of a q-tip. Our values are out of whack. We pay a guy who can shoot a basketball through a hoop millions of dollars, while a social worker who is in the trenches changing lives day in and day out struggles to pay the electric bill and wonders, “why?”

These values are ever present in the Wall Street community and that is what I mean by the culture being broken. If the center of the financial universe is Wall Street and that culture’s values are broken, then those who listen to Wall Street’s advice are in serious trouble.

We need a new voice. A new way to understand how to invest that makes sense to conservative investors, literally millions of those approaching and already in retirement who are depending on sound financial counsel to live out their retirement.

That is why I wrote this book. Wall Street is a broken, disconnected culture and the average conservative investor needs a financial plan that makes sense. Mom and Dad used to call it common sense. I don’t think Wall Street knows that term.

So, my hope is that you’ll have a little fun reading my stories and maybe, just maybe, you will begin to understand that the concepts involved in making your retirement a success are not out of your reach the way so much was out of my reach at the dinner table so long ago. On the other hand, you might continue to listen to Wall Street’s blah, blah, blah and let the money you saved all your life fall asleep in your mashed potatoes. I’ll leave it up to you.

Pass the gravy please.

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Bat-Socks & Vegas

My brother Bob was the coolest kid growing up—well, at least in my opinion. He was one of two older brothers and one younger. Bob was three years older and I thought he was on the cutting edge of almost everything. He colored life inside the lines and was choosy when it came to fads. Growing up in Missoula, Montana during the 60s wasn't exactly the center of the Hippy movement, so our choices on fads were limited and probably a year behind by the time they got to us.

Bob really got into the *Batman* TV series when it came out. You remember? Adam West as Batman, along with Robin, the Joker, and of course Cat Woman. Bob loved Batman. Every kid loved Batman, but not every kid took a black felt marker and drew the Bat symbol on his white socks. Bob did, and he wore those "bat-socks" with pride, for a few months at least. Then he was on to a different fad. Girls maybe. I just remember going into his dresser, finding those socks and wearing them when he wasn't home. I think I wore holes in them. Then one day they were gone. Weird.

That's a fad for you. In fashion one day, and in the garbage the next.

Conservative investing is not like wearing Bat-socks. It's not a fad. It's not something you do for a few months and then try the next mutual fund flavor of the month. Conservative investing is core investing. Its long-haul investing.

There is a basic need for those who use this strategy, which is simply the need to sleep at night. They don't want to worry about losing money. They are not after quick market gains and fast money schemes. To understand a conservative investor's mindset, you need to understand the concept of "risk" and the role it plays in investing.

Define risk?

Vegas. We're done. Next?

The investing community thinks in terms of "risk aversion" when it comes to assessing a person's "risk tolerance." It's funny, but you know what I think of? VEGAS, baby! It's the center of the universe when it comes to risk.

When people go to Vegas, they fly into an ocean of risk. You can lose so much in Vegas, and I'm not just talking about money. The potential to win—and win big—is what lures millions upon millions of people. What's strange is Vegas is filled with conservative investing retirees who go there to gamble their retirement savings on the "BIG WIN."

In reality, people go to Vegas for the shows, endless buffets, and to lose a "certain amount of money." This is money they actually budgeted and predetermined to lose. When they win and come home with more than they planned to lose, they are just plain giggly. However, when they lose their budgeted gambling money, they are still happy. They expected to lose a budgeted amount and have fun watching Cirque du Soleil and gaining ten pounds. When they lose more than the budget, they are upset. It wasn't what they expected. Not only did they gain ten pounds, they couldn't manage their money! And that's just plain discouraging! Yet, that's the effect gambling has on us. It's fun until you lose more than you thought you would and are mad at yourself for not sticking to your guns…and your budget. It's called discipline.

That's a conservative mindset, a disciplined mindset. When you lose, you get upset because you weren't in control. The degree of your "upset-ness" is the degree of your conservative nature.

Wall Street, however, disconnects with Main Street by defining risk as "the chance that your actual return will be different than what you expected."(1) In other words, they define risk as the potential for your assets to gain *or* lose.

Conservative investors laugh at the thought of gaining money as a risk. Instead a conservative investor defines risk as the potential to lose money. It's not a matter of return on your principal, but return of your principal. A conservative investor's aversion to risk, then, is how they feel about losing more than they expected.

Risk vs. Reward

One of the fundamental ideas in finance is the concept of risk vs. reward. It is generally assumed that the greater the risk, the greater the potential return. For instance, a U.S. Treasury bond pays out less of a return than a corporate bond because the U.S. Government is less likely to go bankrupt than a corporation. Most advisors will tell you both the Treasury bond and corporate bond can be conservative investments. Yet, the risk associated with the corporate bond pushes the issuer of that bond to offer a higher return.

If risk is the chance that the outcome will be negative, a conservative investor wants as little of it as possible. They want to protect principal, protect against inflation, provide income or the potential for income, and increase the value of their portfolio.

There are many types of risk. Here's a short list:

- Market risk
- Business risk
- Purchasing power risk (inflation)
- Sovereign risk
- Interest rate risk
- Reinvestment risk
- Liquidity risk
- Country risk
- Systematic risk
- Unsystematic risk
- Event risk
- Political risk
- Price risk

If reading through this list starts to make your blood pressure go up and your skin turn clammy, you are definitely a conservative investor. I'm guessing you already knew that. Below is a standard Risk Aversion Scale. If you wanted to discover where you fit on the scale, you could take a Risk Assessment Questionnaire offered by various investment companies. (You can check out a sample "Risk Assessment Questionnaire" in Appendix Three.)

Risk Tolerance Scale

Conservative	Moderate	Aggressive

Basically, how you feel about an adverse affect in your portfolio is your personal Risk Tolerance. For instance, let's say you experienced losses in 2000-2003 and again in 2008, but only to the degree at which the broad market suffered losses. You felt bad, yet you may have also believed your assets would recover over time, so you didn't lose any sleep over it. If that was true about you, you are at least a "moderate" on the scale.

On the other hand, imagine you are talking to a friend who had experienced the same losses as above. If you begin to get a pit in your stomach, your palms get all sweaty and you can't avoid the feeling of complete devastation even though it isn't even your money, you are definitely a "conservative" on the Risk Tolerance Scale. You are a conservative investor. When it comes down to 'messin' with your assets, this ain't Vegas, baby. Right?

How to be a Conservative Investor: Life in the "Slow Lane"

If risk avoidance is your heartbeat, then you have to realize patience is the key to conservative investing. Not patience in the sense of recovering from losses, but patience in accruing gains over a longer period of time. Lower risk assets typically are the tortoise, not the hare. While there have been times in history when fixed assets have had high yields, it isn't the norm.

My Aunt Ginny gave me a copy of my great grandfather's handwritten history of the family's American adventure. He tells of his parents coming over on the boat in 1835 and settling in West Virginia. They pulled up roots and joined a wagon train out to Kansas where they lived in sod huts and burned Buffalo chips in the winter to stay warm. While in Kansas, my great grandfather's family tried farming and started a rope manufacturing business that eventually failed, causing them to abandon their luxurious huts and headed north. Traveling through Utah, he mentions meeting a helpful Mormon family and moving on to Idaho. In the mid 1880's, they homesteaded a 160-acre farm outside Boise and settled down once again. Working as cattle herders, the family became deeply in debt as they tried to make the homestead work. He talks about a lot of issues during those days, including blizzards, illness, and incredibly hard, lonely work. One of the worries that kept his father awake at night was the interest on the debt…18%! I was amazed he remembered that detail 70 years later as he wrote the story.

I was also interested in what he called, "Cleveland Badges." It seems that in the 1890's, while Grover Cleveland was in his second term as President of the United States, the economy was in a severe recession following the Panic of 1893. The "badges" mentioned were actually patches on their clothing. They were so poor and times were so bad they couldn't afford to buy new clothes. They just patched the ones they had, blaming it on the President. Thus the term, "Cleveland Badges."

I tell you this story because it illustrates how high interest rates were back in the 1880's and it wasn't until the late 1970's and early 80's that interest rates were that high again, along with double-digit inflation. High interest rates seem to cycle through history over longer periods of time. If you are waiting for high interest rates, you are going to have a nice relaxing wait. The truth is that 6-month CD rates from 2000 through 2009 have had a high around 7% and a low of something under 1%. (2)

People using an interest rate strategy make good use of bank deposits, money markets, U.S. Treasuries, and fixed-income assets. For the most part, these assets provide relative security of principal, yet lower returns. The real problem is the loss of purchasing power due to high inflation, which often accompanies times of elevated interest rates.

Benefits of Conservative Investing: Who would want to go through this?

The major league benefit to the ultra-conservative investor who doesn't risk principal is simple: sleep. That's right. They don't worry about their assets when the DOW drops 300 points in a day. They wonder how that poor sucker with his money in the market is doing, and silently gloat.

So then, what is conservative investing and how do you go about it? Simply put, conservative investing is a long-term strategy to manage risk in such a way as to conserve principal while maintaining buying power. What are lower-risk assets? Well, they could be anything.

The real question is, "how do you manage risk?"

It's the subject of the rest of this book, so leave your Bat-socks in the drawer, forget about VEGAS, and dig in.

- Two –

What the Heck Just Happened?

A Crumpled Freshman Mass of Goo

I remember my freshman year in college at the University of Hawaii. I was on a football scholarship coming off a very successful high school career. It wasn't too hard because I was the biggest guy on the team at 6'2" and about 225lbs. I know, that's not so big these days, but back then in Lynnwood, Washington it was large. I had okay speed, played offensive tackle and middle linebacker. I loved playing linebacker. It was the glory position where you get to hit just about anything that moves and have a lot of fun doing it. We had an undefeated team my senior year and I was the Team Co-Captain along with the quarterback Mark Hobbs.

Going to Hawaii, I wanted to quickly work my way to the starting linebacker position and make the traveling squad. If I did that, I would be able to join the team as it traveled back to my home town to play the University of Washington in front of all my friends. Boy, was I really going to impress them. But, something happened. I got to the practice field and the speed of the game was so much faster in college it was hard for me to see what was happening. I remember a Saturday scrimmage about two weeks into "three-a-day" practices in August of 1973 when I realized something had changed.

We had a USC transfer tailback and two flying mountains they called offensive guards. I think they kept these animals in the basement and didn't feed them until after practice. They were mean, ugly…and very fast. When I was put in as middle linebacker against the first team offense, they ran a toss sweep with their stud tailback. I saw the movement go to my left and I ran as fast as I could to the outside and sure enough Igor and his buddy Frankenstein were flying around the outside to block. Now, in high school, being bigger than most, I would simply run over the guards to get to the tailback. So, I gave it a shot.

Igor and Frankenstein didn't even break stride as they ran over me. They left cleat marks on the front of my bloodied jersey as I lay on my back, barely able to breathe. Something was different here and—call me a little slow—but the speed of the college game was so much faster, the players so much larger, I really had an adjustment to make. The game had changed and I was left in a crumpled freshman mass of goo on the turf. I asked myself, "What the heck just happened?"

By the way, this is not a question you want to be asking about your finances at any point in time if you are a conservative investor.

Big Words

I'm generally not a fan of big, $64 words. You know the type, more than two syllables and hard to pronounce. People use them to sound impressive and well educated. Brokers and agents use them for the same reason, but also use them to hide what they may not know. Weird, huh? They use a word they may not completely understand, hoping the person sitting in front of them has no idea what they're talking about, all the while pretending they know what it means. Next time a financial planner uses a term like "standard deviation," ask him to explain it so you can understand. Financial planning should not be that difficult.

I kind of like the word "paradigm," though. I know it goes against my usual tastes, but it sounds so good. I was teaching a Sunday School class one day and used it. I was very proud of myself for sounding so educated. Yet, after I used the phrase "paradigm shift" the class reacted a little odd. They laughed. Imagine that. They laughed at the phrase "paradigm shift." I couldn't understand it so I chuckled and continued the lesson. An older gentleman came up afterward and took me aside, telling me he loved the class and got a lot out of it. He informed me however I had missed pronounced the word. The rest of the class probably thought I did it on purpose, but this wise old gentleman caught it. Paradigm is pronounced "para – dime" not "par – i – di – gum." I can't tell you how many times I had missed pronounced the word in seminars and agent classes I've taught. Using it sounded so intelligent, all the while I sounded like a buffoon.

Just a thought about using big words; make sure you pronounce them correctly. They can make you look like the idiot you decidedly are if you don't! Humor me though, as I try to explain how paradigm shifts have changed for conservative investing. *(You can pronounce it any way you want. No one will know because you're only reading it!)*

Perspective & Paradigm Shifts

What is a paradigm shift? You can think of it as a sort of transformation, a changing of one way of thinking to another. Some might even call it a revolution or a metamorphosis.

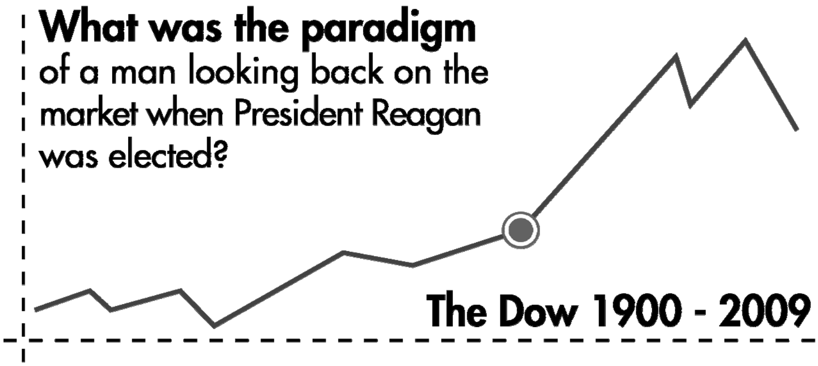
In 1610, Galileo stunned the world. While studying the solar system through his telescope, he came to believe Earth orbited the Sun rather than the prevailing worldview of the Sun and planets revolving around the Earth. He was the catalyst for a hard-fought change in how we view the universe.

No one can argue the creation of television was a major change agent in American society. From *Ozzie & Harriett, Gilligan's Island*, Network News, Cable News, ESPN, Fox News, reality TV, shopping channels, to HDTV, television has changed our lives. The constant programming and commercial messages have transformed how we view ourselves and the world around us. Metamorphosis.

The rise of the internet has created a whole new way for people to develop relationships. What an incredible cultural turn in relational development. With MySpace, Facebook, Twitter, eHarmony, and more, the power of the internet to connect people is changing the way we think about who we are, and how we relate to friends, business partners, and love interests. That's pure revolution!

There are also very interesting alterations in "investing paradigms" which have taken place over the last 30 to 40 years. Changes of this magnitude usually take a long time to blossom. I believe our perspective on investing has changed because of a cultural transformation in America and the effect of bear markets—especially big bear markets—on future economies. Let me illustrate.

Looking Back at the Dow from 1980



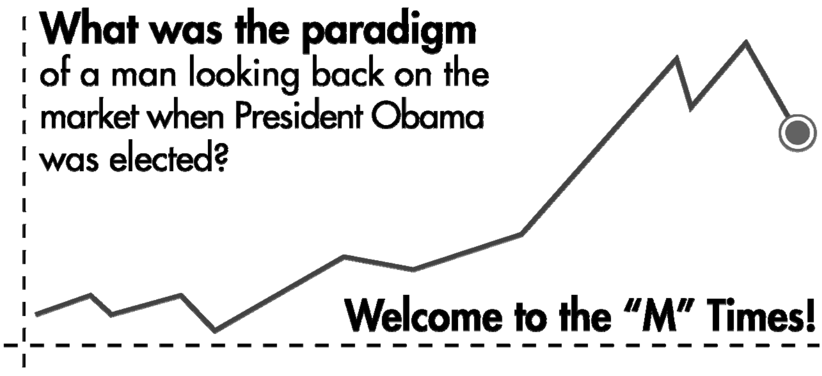
I was talking on the phone with Greg Anderson, a financial planner friend of mine from Colorado. He is a creative sort who has some unique takes on investing. Greg challenged me to look at the last 30 years of investing history in a new light.

You remember the 1970's, don't you? Watergate and Nixon. The Beatles broke up and the Eagles soared. The Village People and YMCA. Presidents Gerald Ford and Jimmy Carter. All the *Airport* movies! Strange years, but they were the prelude to Ronald Reagan and "trickle-down economics."

If you were an investor in 1980, when President Ronald Reagan was elected, what did you see? I mean, if you could literally stand on a time line of the DOW in 1980 and peer backward over the last ten to twenty years, what would you see that would affect how you invested going forward? The 70's were turbulent financial years with investors largely investing in bonds, large cap mutual funds, and blue chip stocks. The 70's were the up and down years of a mid-term bear market that started in the fall of 1965 and didn't recover until the fall of 1982, covering 17 restless years. Who can forget long gas lines and double-digit inflation? That's what you saw looking back from 1980.

Investors in those years believed in the long haul of blue chip investing. Speculation was not a prevalent strategy in the 70's. With the advent of IRAs in the 70's, the average person began to invest more in the market. The beginning of the decade saw an average of 10 million trades in the DOW per day. By the end of the decade, it had increased 5 times to an average of 50 million trades per day and growing. Today, the DOW ranges from about 4 to 10 billion trades per day, mostly made possible by advances in the internet.(1) The speed at which markets change is the speed of information, and information is accelerating geometrically!

The prevalent investor strategy at the beginning of the 80's was unmistakably conservative. They looked for safety and dividends. They weren't "speculative" in nature, but desired small, consistent gains along with dividends. Not much risk.



In contrast, what was the view of an investor looking back on the market when President Obama took office in 2009? Again, if you could stand on a DOW timeline and look back, what would you see? My friend Greg titled this the "M-Generation." Very creative I thought. Yet, I liked the "M-times" a little better. Sounded almost Apocalyptic.

An investor looking back on the last 20 years in the DOW would see a huge M in the graph the closer it got to his time—the "irrational exuberance" of the 1990's Bull market, followed by a tech bubble bursting into a near 50% loss from 2000-2002, followed by a 5-year Dow run up with the peak of the second half of the "M" in October of 2007, followed by the housing bubble, bank bubble, finance bubble, and whatever other bubble was out there, bursting into flames by the low point of March 2009.

My take on Greg's M-Times is that people react in two ways. First, some are numb from the terrifying roller coaster rides and leave their money in the market not knowing what to do but hoping it will come back. It's called Buy and Hope, which we'll discuss later. Second, others are cashing out and are investing in low-interest-rate CD's, money markets, and savings accounts. There is a ton of money on the sidelines. Mass confusion reigns.

Obviously, significant Bear markets cause a change in the way people invest, leaving them asking, "What the heck just happened?"

Gambling vs. Investing: A New Paradigm Shift

Let's take a look at another cultural shift which has taken place over the last 30 years. The cultural trend toward the acceptance of gambling and its influence on our investment styles is truly fascinating. I believe that our perspective on investing has changed because American culture changed first.

Miriam-Webster's online dictionary provides the following definition of investing:

"In·vest" verb

1. *to commit (money) in order to earn a financial return.(2)*

It seems that the word invest almost implies that your principal will be secure and you would receive a gain in addition to your principal. Has a ring of safety, doesn't it? Now let's look at Webster's definition of gambling.

"gam· ble" verb

> 1. *a: to play a game for money or property b: to bet on an uncertain outcome 2: to stake something on a contingency: take a chance* (3)

When we look at the dictionary definition of gamble, we see it is more in line with what our investing culture has come to accept over the last 30 years. This point is brought out clearly in a book titled *Blind Faith* by Edward Winslow, 2003. In his book, Winslow presents a dramatic case for the change in investing brought on by the cultural acceptance of gambling, which has increased forty fold over three decades. (4) Take a look at the facts on Gambling:

- Gambling is a $90 billion a year industry.
- 1988— only legal in Nevada and New Jersey.
- 1994 – Operating in 23 states.
- 2000 – Over 34 million people visited Las Vegas.
- 2000 – Over 127 million in casinos nationally.
- 2003 – Operating in 48 states
- Industry take - $750 per participant or $250 per person in U.S. (5)

Do you remember what society thought of gambling in the 1950's, 60's, and 70's? Gambling was considered a negative social element and looked upon with distaste. I'm sure it was one of the seven major sins, and with the exception of sex, I can't even tell you what the other six were (not because my mind stops at the word sex, though). If we look over the last 30 years, gambling has gone from a blight on society, equal to smoking, drinking, pre-marital sex and extra-marital affairs, to a cultural norm. What the heck just happened?

If you've been to Vegas in the last 10 years, you surely can't miss the fact it is a retiree's haven. The very people who, when they were growing up, thought of gambling as evil, have now made Risk City their number one travel destination. Not only that, but some of the most popular cable TV shows are televised gambling events. You can watch it on television and play it online 24 hours a day. It is in our 21st century American blood. The acceptance of gambling represents a definite cultural shift and has doubtlessly had an effect on not only the way we invest, but if we invest at all!

Strangely enough, in 1978 Congress enacted a change in the tax code which enabled much of the change to speculation in our investing culture. They amended Section 401(k). It took effect in 1980, and by 1983 more than half of large companies were setting up 401k plans, a little more than 17,000.(6) Half way through the 1980's, there were less than 8 million people investing in 401ks with about $100 billion invested. By 2006, there were seventy million participants and more than $3 trillion invested.(7) The average American in the 70's wasn't invested in the market, and by 2006 it's a cultural norm. They went from saving in banks to investing in mutual funds just because of the availability? No. There has to be a correlation between our society's acceptance of gambling and the radical flight from safety to speculation. Again, what the heck just happened?

Webster says gambling is wagering money or assets on an uncertain outcome. Tell me the difference between an employee "investing" in an uncertain mutual fund market at one of the most turbulent times in our nation's economic history and "gambling." Please, somebody tell me!

Wait, there's more…

In 1884 Charles Dow began publishing his "Dow Jones Averages" in the *Customer's Afternoon Letter,* which was the forerunner of *The Wall Street Journal*. In 1896, he changed the name to the *Dow Jones Industrial Average,* which consisted of twelve industrial stocks, a departure from the original nine railroad stocks, and two industrial stocks. The first index containing the "Rails," as people referred to it, continued to rival the industrial average's for the next 20 years.(8)

Russell Napier, in his book *The Anatomy of a Bear* tells us these two main indexes, the Dow Jones Industrials and the "Rails" Stock index, were the two main indexes at the turn of the 1900's. During the hard financial times from 1900-1914 and the start of World War I, Napier tells us that the government nationalized the railroads, and guess what happened to that stock index. Right, it virtually went away when the government devalued the rail stocks by their takeover.(9) That was a huge alteration in the market.

Another event that caused a deviation in the market was the creation of the Federal Reserve in 1914. The Fed was created to make our currency "elastic."(10) In other words, to "inflate" the money supply during a recession or depression, the fed would print more money tied very loosely to the gold standard hoping it would grow the economy. That created incredible changes in the financial markets coming out of 1921.

So, what similarities are there to the government involvement during and after the crash of 2008? How about the near nationalization of our banks, auto industry, and most of the 20% of our economy represented in the health care system for starters? And, what changes will these make in economy, stock market, and investing culture?

If you don't know the answer to these questions, then is it wise to have a large portion of your retirement assets in the market? How confident can you be with no protections, or without a strategy to minimize your losses? Large paradigm shifts in the market created by cultural changes and Bear markets is no place to find solid ground.

I'm not saying you should be out of the market during times such as these, but you should have a solid plan to manage risk in accordance with your conservative tolerance. Remember, the question is not "how much money you should have in a mutual fund," but "how do you manage risk?" If you don't have a good enough answer, then your assets along with your retirement future might end up like my football career at Hawaii: a bloodied, crumpled mass of financial goo and you'll be asking, "What the heck happened?"

- Three -

Santa & Six Wall Street Myths

Twas the Night Before Christmas

Santa Claus. The Tooth Fairy. Hercules. Like most kids, I believed in all of these as I was growing up. I actually believed in Santa Claus until I was 11 or 12 years old. I loved Santa. If I was good, he brought me toys. If I was bad, well…let's not go there. My family loved perpetuating this belief, including my two older brothers. They went to great lengths each year to make me believe Santa delivered the presents under our tree on Christmas Eve. You see, each Christmas Eve our family would pile in the car and drive around town to look at Christmas lights. Impossible as it may seem, Santa would know we were out of the house and he placed all the presents beneath the tree by the time we returned.

Before we left the house each year, my mother would be the last one out of the house. I was in the car with my brothers waiting not-so-patiently to get on the road so we could hurry up and return for the presents. Dad would send one of my older brothers in to get mom and he would take forever to come out. Once we got on the road, my Dad would even drop back by the house, go up to our front window and look in. He would shake his head meaning Santa hadn't come yet. Imagine the emotions running through my body. He's here, he's not here, he's here, he's…I'd be deflated. Off we would go again.

As we would drive around the neighborhoods, my Dad and brothers would slyly say, "Look, there he is," or "He's over here" or "He's right above the CAR!" I would frantically try to peer out the side of the car they were pointing to. I never saw him, although sometimes I would say I saw him so I wouldn't be the only one in the car who wouldn't have seen him. It made sense to me back then. What can I say, I had a troubled childhood.

Finally, we would get back to the house, and Dad would check the window again. This time he would send me to check it out. I would scramble to the window take one look and start jumping up and down with excitement. "He came! He came!" I would burst through the front door and see an amazing array of boxes and bows under the tree. I nearly wet myself. How did Santa do it?

My brothers must have loved it year after year wondering how long they could keep it going. It makes you wonder if they did it out of love or some other more sinister motive. Of course when my younger brother Tim was old enough, I continued the tradition. I loved seeing his face light up when he saw those gifts through the window, and also loved that I knew the secret truth.

The truth is Santa was a myth. I know it may come as a surprise to some, but he is definitely a myth. Yes, I know Santa embodies giving, goodness, generosity, and many more positive attributes. Yet, in the end, he's still a myth.

Wall Street Myth or Maxim?

One way Webster's dictionary defines myth is by describing it as a popular belief that has come about by "an unfounded or false notion." Maxim on the other hand, is defined by Webster's as a general truth, or a fundamental principle. Let's take a look at six Wall Street sayings, that many would call maxims. We may in the end, however, find out they are indeed myths. I'll let you decide.

Wall Street Saying #1: "I haven't lost until I sell"

This Wall Street saying actually comes from a reality in the world of taxes. If you bought a stock for $10 a share, and four years later it's worth $20 a share, you have good news. You made money. If you sell the asset at this point, you will have a gain to report on your taxes of $10 a share. You have "realized" your gain. You also have some bad news, a tax due on the gain. This is called a "capital gains tax," which is a tax on the gain in the asset. You are only taxed if you sell the asset, thus you "realize" the gain only by selling the asset.

If however, the share price went down to $5 a share, you have lost money in your investment, and if you sell, you will "realize" a loss. You can use that loss on your tax return to wipe out certain gains. You would not be able to use this to your advantage on your tax returns, unless you sold. In reality, you haven't lost until you sell, is only true when it comes to taxes. It is not true when it comes to investing.

People come to my office every week, bringing in their statements for me to evaluate. As I analyze them, I began to see gains and losses in assets as discussed above. I look at the dollar figure on the statement and it may say they have $500,000 worth of assets. The statement puts dollar figures on assets for people to see how much money there assets are worth. The dollar figure tells you how much money you have in the account.

Sometimes I look at their statement from the previous month and they might have had $600,000 worth of assets. When I asked them how much money they have, they tell me they have $500,000. When I point out that they have lost $100,000, they look at me a little conflicted. They know their statement says they lost the money, but they are trained to believe "I haven't sold it yet so I really haven't lost."

How can this be true? They have exactly how much money is represented on their statement. If they needed cash today they would have $500,000. In the real world, the dollar amount listed on their statement is what they have. In what other area of finance would they ever look at a statement so specific in totals and not believe it. Instead, they believe their broker, who doesn't want to lose the account. He's perpetuating the lie, telling them "you haven't lost because you haven't sold."

People will often want to believe a lie because the truth is too painful to live with. They are in total disbelief of the realities communicated in their statement. The same broker, however, will call them when their assets have grown in value bragging, "See how much money I've made you? Don't you want to invest more?"

When you think about it, if you received a statement from your utility company showing a large increase over your previous month, wouldn't you believe the statement? Surely you wouldn't pay the same amount as last month? Wouldn't you believe what's written in black and white? You might think they made a mistake and call to clarify, yet you would eventually come to an understanding with the utility company on the exact amount you owed.

How can this double standard be true? It's NOT! The old saying, "I haven't lost until I sell," is actually Wall Street manipulating our thinking into believing we didn't lose anything when we actually did. This is a lie spawned from a broken culture bent on deceiving you for their advantage.

If "I haven't lost until I sold" is true, then all bad mortgages would just be a paper loss and the black abyss of 2008 would never have happened. The mindset that an actual loss of value in any asset is only a "paper loss" is the way creative accounting starts. There are no paper losses when it comes to investing. There is only lost money. Sure, you can write it off your taxes, but that is my point exactly. It's a tax reality. For investors, we can't afford to be unrealistic in our outlook, especially in our beliefs about money. We can't afford to take a soft passing glance at our statements and believe a convenient lie.

We have to take a hard look at our statements. We have to tell ourselves the truth. "You haven't lost until you sell" and "it's only a paper loss" is akin to believing Santa really lives. If your broker wants you to keep believing a myth and take you for *another ride around the block,* I urge you to believe what your statement tells you. If you have $500,000 on your statement, please, believe what's written in black and white. You only have $500,000.

The truth is the market goes up and down. Your accounts may very well recover to their old levels, but until then, "you have what you have" is a better catch phrase to use. Reality is always a better place to begin when evaluating how to move forward. You can even say that you have lost money in your investments and if you keep them they may one day regain their value. I'm sure that's what the owners of Enron stock said.

"I haven't lost until I sell" and Santa Claus—Myth or Maxim? You decide.

Wall Street Saying #2: "The large wire houses are the best place to get professional advice."

> *A long time ago, a visitor from out of town came to a tour in Manhattan. At the end of the tour, they took him to the financial district. When they arrived to Battery Park, the guide showed him some nice yachts anchoring there, and said, "Here are the yachts of our bankers and stockbrokers."*
>
> *"And where are the yachts of the investors?" asked the naive visitor. (1)*

While I don't want to seem jaded, you have to at least acknowledge that something is wrong here. This little story illustrates a common perception in the country that brokers make a lot of money on the backs of their investors. You may agree or disagree, but it is definitely a perception and we are often told that perception and reality are not far apart.

In case you are unsure what a "wire house" is, it is a large brokerage firm with many branch offices and brokers. The branch offices operate under the jurisdiction of the main firm, share financial information and research through a common computer system. Past large wirehouse firms which you might be familiar with are Merrill Lynch, Morgan Stanley, Goldman Sachs, Wells Fargo, or Wachovia. Since 2008, it has gotten a little hard to keep up with these firms because of the meltdowns and mergers.

Many investors are attracted to the big names because they want the comfort of doing business with a large, well known firm. After all, what could go wrong? If the events of 2008 and beyond have not shaken the confidence of the American public in that philosophy, I'm not sure what would.

When major firms file bankruptcy like Lehman Brothers, or are bought out before they fail like Bear Stearns, or when Goldman Sachs is investigated by the government for what is at least considered questionable conduct, you have to wonder if the advice you receive is in *your* best interest.

Not only that, but brokers are reportedly leaving Wall Street firms in droves. After 2008 and 2009, brokers began to consider the possibility that large wire house firms might be more of a liability than a benefit to their careers. The independent advisor used to be looked on as a second-class option for those seeking financial advice. However, many brokers who are leaving the failed large wire houses are going independent. (2) Clearly, they see the need to disassociate themselves with the Wall Street muck being exposed in the daily news.

In typical Wall Street fashion, these firms were selling stocks, proprietary mutual funds and IPOs to their clients who believed they were receiving unbiased advice. The reality is, they were being sold products which best suited the firm's bottom line rather than bettering the client's positions. Their fiduciary responsibility was in question, and the public began to realize it. Lawsuit after lawsuit began to show a broken culture's motivations were highly suspect.

In addition, if you only go to the large wire houses for advice, then you leave out the largest group of advisors who happen to be independent. Most of these advisors are highly qualified professionals with the client's best interests at heart. They don't want any part of a large company telling them what they have to "sell" their clients. They are independent insurance agents, Registered Investment Advisors, and brokers with smaller independent firms concentrating on the needs of individuals as a priority.

Yes, I am biased. I am an independent advisor and train advisors nationally. They are an incredible group of men and women with high integrity, skills, and passion for what they do. Sure, there are bad apples in every barrel, but my experience with advisors across the country is incredibly positive. They work long, hard hours serving their clients and the majority of these exceptional men and women don't own yachts. Their motto is not "Greed is Good," but "People First, Money Second."

So, with brokers leaving large wire houses in great numbers, receiving financial advice from a failing, "out-of-touch with reality system" seems equally questionable. If those giving the advice are leaving, why would you want to stay?

Large wire houses are the best place to get professional advice, Myth or Maxim? You decide.

Wall Street Saying #3: "A diversified portfolio of stocks, bonds, and mutual funds are safe over the long haul."

> *"Wide diversification is only required when investors do not understand what they are doing."* Warren Buffett (3)

My question is simple. If you don't have a clue what you are doing, what are you doing in the market in the first place? An even better question may be, "Does diversification actually provide the safety a conservative investor really desires?"

I was with a bunch of advisors from around the country recently and told them the industry uses the word "diversification" like pixie dust. They laughed of course, because they know it's true. All you have to do is tell a client you are putting an asset in a portfolio to add a little "diversification" and the client will shake their head in agreement. It's really weird! After all, who can argue with "diversification?" Just throw it on anything and people will agree with you.

"Sir, would you like your office furniture to be diversified?"

"Ma'am, are you looking for a little diversification in your wardrobe?"

See? People are trained to agree with you. You can't go wrong with offering diversification.

The only people this doesn't work on are children. They haven't been trained yet by Wall Street. Children don't care about "toy diversification." They just want more toys. I guarantee you one day they will be equally enchanted, because Wall Street has some powerful media mo-jo.

Okay, enough fun. What is the theory behind the pixie dust? Basically, diversification implies you can reduce your overall risk by investing in assets which move in different directions over time and in response to market conditions. You might buy individual stocks and bonds, large cap and small cap, domestic and foreign, financial sector and manufacturing sectors, hoping that if one asset class goes south the other area will go north. This has been the practice for Wall Street firms for decades, based on years of studies.

In an editorial for Investment Advisor Magazine, July 2009 an advisor, commenting on the market collapse in 2008 and 2009, makes the point that Wall Street was broken (again!) and the diversification models used by wealth management advisors failed their largest test ever. The author suggests the following reason:

> *"What went wrong? The fixed income substitutes pushed by the major investment houses" low volatility hedge funds, preferred stocks, asset-backed securities or other structured products, closed-end bond funds, income/mortgage REITs, and master limited partnerships weren't fixed income substitutes at all. None of them is a substitute for the most important characteristic that investors should be looking for from the fixed income portion of their portfolios: safety of principal." (4)*

The editorial goes on to imply that bonds are the only fixed-income asset that should be used to balance risk in portfolios for investors seeking a safe diversification. The problem with bonds, which we'll discuss in a later chapter, is they can also lose money. If you held Bear Stearns bonds, or Lehman Brothers bonds, or if you currently hold California municipal bonds, you may very well have experienced losses or soon will. At the very least, you are or were very nervous.

I can't even imagine how a hedge fund or a preferred stock could be listed as a fixed income asset. Yet, this is exactly what happened to wire house clients. That is why Wall Street is a broken culture. They just don't get it.

In the end, conservative investors in or approaching retirement got sacked in 2008. They just can't afford to lose because their investment horizon is shortened. Sure diversification in a portfolio might lower volatility over the "long haul" of 50 years. When you have to draw income now and make it last for 30 years, you can't afford a broken Wall Street approach.

A diversified portfolio of stocks, bonds, and mutual funds are safe over the long haul, Myth or Maxim? You decide.

Wall Street Saying #4: "Buy & Hold is an Effective Conservative Strategy."

"Buy and hold as a strategy is very questionable…It's worked in the past, but in time of severe market stress it just doesn't work."

Ben Stein, author, lawyer, actor, and financial commentator (5)

Mr. Stein is certainly not THE authoritative voice for financial matters, but I think he says here what many advisors, post 2008, believe. Buying a stock, bond, or mutual fund, then sitting on it while it fluctuates up and down is at best an era gone by. The reason is simple. Economic trends move so fast in today's culture what could be a good bet today could have a change in direction after the day's news cycle. Information travels at the speed of the internet and a tactical approach to investing would seem to be more appropriate, unless you are Warren Buffet and losing millions wouldn't affect your current strategy.

The simple reason "buy & hold" is better named "buy & hope" is because it lacks the ability to respond to markets in a timely manner. I will be covering much of this in chapter 8, but tactical management, in my opinion, is a more up-to-date management style for conservative investors. The average broker or investment advisor does the best he can by picking stocks, bonds and mutual funds that fit a client's risk tolerance. Then for the most part, they sit on those assets come hell or high water, only liquidating in extreme situations. The reasons they change assets are to try to find "relative strength" in a sector or under-priced assets in a growing segment of the economy. Some use outside sources to get counsel on where they should invest next. These sources are investment advisors themselves trying to figure out the market. Usually what happens is the advisor picks a hot mutual fund manager and hopes he continues his track record. The whole system seems to look at returns over 1 year, 3 years, and 5 years to see who has the best record, or which fund or stock is "on the rise."

The problem with this mentality is it doesn't have a solid plan for how to manage risk. The markets do two things very well: they go up and they go down. Volatility is inherent in the markets. How you deal with volatility and risk should be the focus, not trying to compare returns. Comparing returns is tempting and you can make a case that certain fund managers have done well over time. Yet, everybody lost in 2008. When fear and panic set in, a buy and hold strategy will kill a retiree's portfolio. A fund manager has to pick stocks and in an environment like 2008 where the normal logic went out of the market, the fund manager was lost. He certainly couldn't sell everything, that's just not how they do it. And so they sat and painfully watched as their mutual funds value plummeted.

I'm sorry, but you have to do better than that if you are managing money for a conservative investor.

While there is no perfect system, a tactical approach doesn't make decisions based on returns; rather it looks at price movements in the markets along with other trend data to make portfolio adjustments. (You can read more about this in Appendix Four with articles written by Dan Hunt and Bryce Kommerstadt.) Suffice it to say, that "buy & hold" is an antiquated model at best.

Buy and Hold is an effective conservative strategy, Maxim or Myth? You decide.

Wall Street saying #5: "Just buy a no-load index fund."

I have heard it said if you just bought index funds rather than mutual funds whose goal is to out-perform the S&P 500 index, you would have done better over the last ten years. There is probably some truth to that, depending on which "manager of the year" your advisor selected for you. The theory is the S&P 500 index fund from whatever company you choose will simply follow the index and beat the fund managers.

Let's say you were a conservative-minded investor in 2000 that didn't buy into the tech-bubble and invested heavily in the S&P 500 Index. You listened to John Bogle, founder of Vanguard, and purchased no-load, low expense index funds from several sources, investing $500,000. You were 55 years old and looking to retire in January 1, 2010, at age 65. Here is what happened to you.

S&P 500 from 2000-2009(6)

	S&P 500	Your Account
January 3, 2000	1455.22	$500,000
December 31, 2009	1115.10	$383,150
	-23.37% Loss	

Obviously, this is an over simplified illustration and you probably didn't have all of your money invested in the index funds. However, if you listened to the advice of those who believed this was a conservative strategy, you would have been incredibly disappointed with the funds you allotted to this strategy. Even if one third of your retirement accounts were in fixed assets that averaged 3%, over the decade you still would have lost about 8%. The important question is, would you want to retire with those losses or have to continue working?

Some say a decade like that will never happen again. Really? Are you willing to gamble your retirement on it not happening again? Is this truly a conservative strategy? I don't care if it's a no-load, low expense, Vanguard, Fidelity, ING, or any other group of index funds. If you just get the index with no way to secure your previous year's gains, your future is incredibly insecure.

Just buy an Index Fund, Maxim or Myth? You decide.

Wall Street Saying #6: "Index Annuities are Dangerous."

I love this one! Where do I begin? If you listen to a certain segment of the brokerage community, you would think index annuities are like great white sharks—they will jump out of the water and eat you whole!

It seems that there is a war going on between Wall Street and the Insurance industry. It's all about money, as usual. Every year between twenty to thirty billion dollars leaves the securities industry for these products. So, it is no surprise the securities industry who wants to stop the loss of commissions and fees from leaving their brokers have created an onslaught of negative publicity regarding index annuities.

There are tons of articles railing on Fixed Index Annuities (FIA), by supposed experts quoting their own research. Yet none of them compare with the most recent study completed in 2008 by David F. Babbel, Professor of Insurance and Finance, at the University of Pennsylvania's, Wharton School of Business.

Tom Cochrane interviewed Professor Babbel for AnnuityDigest.com. He is quoted in Mr. Cochrane's blog, July 2009:

> *"There has been a lot of misinformation in the popular press regarding FIAs. The vast majority of newspaper and magazine accounts vilify FIAs based on the results of alleged academic studies. The in-depth studies we conducted took over two years to complete and involved six Ph.D. financial economists and a pair of very well known senior actuaries….Our findings regarding actual products show that since their inception in 1995 they have performed quite well – in fact, some have performed better than many alternative investment classes (corporate and government bonds, equity funds, money markets) in any combination." (7)*

Did you hear that? This professor from the well-known Wharton school of business does the definitive study to date on FIAs and the findings are very revealing, and very positive. These studies are done by academicians who, by their own admission, "don't have a dog in the fight." They are truly unbiased studies done for peer review and educational purposes.

Professor Babbel's study actually shows when FIAs are compared to alternatives like Vanguard's S&P 500 Index Fund, money markets, and the S&P 500 itself, gave better returns since 1995, and for each year they were issued. He makes the case that for those investors who have a conservative to moderate risk tolerance, FIAs provide what these investors desire.

Contrary to what some critics have stated, Babbel asserts that "Moderately risk-averse individuals will always choose the annuity over alternative investments." While the critics of FIAs have questioned whether people who could invest in alternative investments such as Treasury securities and equity mutual funds would not rationally invest in FIAs. Babbel concludes that many rational investors would actually prefer annuities over alternative investments. (8)

I'll have much more to say about FIAs in Chapter 7, but for now let's just agree that though there has been unwarranted negative press about the actual products themselves, it's obvious they are not the great evil as some misinformed brokers portray them. In fact, they are a positive option for the conservative investor.

Index annuities are dangerous, Maxim or Myth? You decide.

While I have been critical of a broken Wall Street culture, I don't want you to believe that all brokers are an altogether worthless group. In fact, the independent brokers who are out of the large wire house system are a hard-working crew with the best of intentions and, more often than not, excellent abilities. They are often well-trained and well-educated professionals. It's the myths that the culture perpetuates and the bias it comes from that need to change.

Well, are you at least questioning some of the wisdom of Wall Street? Or are you still in the back seat on Christmas Eve wondering if Santa's coming?

- Four -

Jump in…the Water's Fine!

Flathead Lake

I was born in Kennewick, Washington, and when I was about one year old, my family moved to Missoula, Montana, so I thought I'd go with them. Missoula was a great place to grow up. Since my grandfather was a Methodist minister, our family would spend a lot of time up north in the Methodist campground at Flathead Lake. I know the name sounds funny, but Flathead is the proud name of the Indian tribe and reservation in the area. Flathead Lake was beautifully nestled in the middle of the rugged Montana Rockies and had its own "Loch Ness Monster" myths. It was practically a playground for any kid with a vivid imagination.

My two older brothers and I would head out early for a swim, leaving our parents asleep in the rustic cabins. We would run to the end of the dock and leap into the water. Well, at least my brothers would take the plunge. Call me a conservative Conrad, but I would stop for a few moments and look into the water and wonder how deep it was, where the monster was, and especially how cold it was. My brother's would be yelling at me with teeth chattering, "C-C-Come on…j-j-jump in…the w-water's f-fine!" I don't know why, but each time I believed them. They are my brothers, right? Of course, they were lying just to see the expression on my face when I came up out of the water with my lips blue from freezing! The lake is just south of Glacier National Park, which is aptly named. The water is anything but *fine!*

A new model of investing? Really? Feel like jumping in?

Whenever someone starts to talk about change, people get just a little nervous, kind of like leaping into an ice-cold lake. They are especially anxious when it involves their finances. As I bring up the subject of a "new model of investing," people are stopped cold at the end of the dock, not wanting to jump in. The status quo looks so good because it's the "known vs. the unknown," the warm and worn, yet rickety dock versus the potentially cold waters of a new investment model.

The Status Quo Bias

Financial researchers tell us it's the "status quo bias" keeping us from jumping into a new model, even though the new model may be a better one:

> *"Most real decisions, unlike those of economics texts, have a status quo alternative—that is, doing nothing or maintaining one's current or previous decision. A series of decision-making experiments shows that individuals disproportionately stick with the status quo. Data on the selections of health plans and retirement programs…reveal that the status quo bias is substantial in important real decisions." (1)*

When faced with a decision between the dock and the water, we tend to stay on the dock, rather than risk plunging into a new environment. I get it. You're afraid of investigating the benefits of a new model just because it's not what you are used to. You are afraid it may be the financial equivalent to the Loch Ness Monster swallowing up your assets. Yet, I need to point out that if you stay on the dock you are currently on, you may very well end up back at the same point you are now, frustrated and fearful—aggravated with your investing results and afraid of what the future holds. Sounds like a monster to me.

Wall Street is Disconnected from Main Street

The main problem with Wall Street is that it is disconnected from Main Street. Wall Street just doesn't get it. My trainer John gets it. I am trying to get back in shape, or at least some resemblance of "in shape." So I wake up at 6:00am on Tuesday and Thursday and let John have his way with me. It's a love-hate relationship. I love what the results are and hate what I have to do to get there.

John is a highly-educated young man with a Masters degree in exercise physiology. He knows why and how an exercise will achieve a certain result. He demonstrates how to do the movement correctly. He then has me perform the exercise, pointing out how I'm doing it incorrectly. He tells me how the physics work in the movement of my arm and how the distance the muscle is from the joint makes certain movements harder others. He explains it in a way that I understand. It is important to understand the connection between muscle movement and joints when the third set rolls around and I am sweating profusely, wanting to take short cuts. I know why I have to do the exercise and what it will accomplish. Knowing the connection between doing the exercise correctly and achieving the results I desire keeps me going through tough times. And there are plenty of tough times.

When I told John I was a financial planner and I was writing a book on conservative investing, he made some interesting comments. John said that what he hears from Wall Street has nothing to do with the realities of his finances. He believes Wall Street is disconnected with reality. He told me what he hears on the financial networks from so-called experts just doesn't make sense when he thinks of his own investing. You know, I hear this from a lot folks.

Like John, the conservative investor is confused by Wall Street. Huge dollars, mega-deals, hot cars, expensive suits, fancy jewelry, and greedy advisors who each week it seems pull off investment scams bilking average investors out of their retirement savings. It seems like there is just no conscience.

The government regulators seem inadequate and unable to stop the onslaught of Wall Street greed.

What is the typical Wall Street model of investing? To begin with, it is based on a "greed is good" philosophy. Once you understand who it's "good" for, you will know why people get so discouraged.

How does the disconnected "greed is good" philosophy play itself out for the average American? Typically, Ma & Pa Lunchbucket are conservative investors who would like a plan designed specifically around their risk tolerance. What they actually receive is a diversified portfolio of market assets and asset classes managed in a "buy and hold" strategy with little movement over the years. Ma & Pa's "unique" portfolio consists of a basket of proprietary mutual funds, a variable annuity and possibly some blue chip stock, maybe even a bond or two. The mutual funds will be C-shares, which allow the broker to make a 1% trailer commission on Ma & Pa's assets with no motivation to change them over the years. They may receive one or two B-share funds, which carry penalties if you sell out of them too early, so you will be discouraged from leaving his services. This model is not only obsolete, but just plain wrong on many levels.

The second problem with Wall Street is it is too complicated. Wall Street forces you to rely on the professional to not just acquire the investments needed, but to decide *for* you what conservative looks like in a plan. The professional broker is swimming in the water saying, "Jump in!" Understandably, most conservative investors do not have a clue when it comes to evaluating and choosing stocks, bonds, mutual funds, annuities, or even know what a REIT is. They don't even know the majority of money markets are not FDIC insured! They are standing at the edge of the investing dock, anxiously wondering if this chattering teethed broker in the water knows what he's talking about with no way of being sure.

The average investor has spent an entire lifetime working hard at raising families and plugging away dawn to dusk in a non-investment related career. They have good reason to not have amassed the information and skill set needed to keep up with current investment strategies, the ever changing market conditions, and how they influence assets. Not only are they clueless on how to evaluate and choose an asset, they don't know how much of their money to put into an asset class and why. In fact they probably ask, "What the heck is an asset class anyway?" They listen to the TV and Radio "talking heads" for their information, not realizing that the majority of guest analysts are money managers looking for exposure in the media to promote their business. Tell me, what would you think a professional who manages a "large-cap, growth fund" would say about investing? Would he not be saying, "…come on in, the water's fine" even if it's glacier cold?

Financial commentators in the media are looked upon as the investment guru for millions. It's not that these media moguls are bad people or that they even give poor advice. They simply do not know who you are or your specific needs. They also assume you, the average conservative investor, know what the heck they're talking about when they recommend "no-load, sector funds…"or any other asset. Even if you did figure out what they were talking about, they didn't tell you where it fit in your portfolio of assets.

Remember, a media personality's number one job is to sell "air-time" and their next book. Their job description does not include finding out your specific situation and emotional response to market losses, make a plan that fits your needs and then review that plan on a regular basis. Uh-uh, not even close. With friendly tones and impressive sounding words, they sell you a simple solution in 90-second sound bites with commercials for their latest book or next broadcast. Not a good place to find personalized investment advice. Maybe it's okay for general information, but you need a lot more than generalized information.

Ma & Pa Lunchbucket & the Wall Street Model

Consequently, people realize they still need help and turn to some well-advertised, recognizable, name-brand, Wall Street brokerage house. Here's what the average experience is for Ma & Pa Lunchbucket trying to follow the Wall Street Model of Investing. They go to a seminar sponsored by a major brokerage firm's local office, conducted by a professional who is probably getting money for the cost of the workshop from some investment company who wants to promote their products. They sign a "complimentary consultation" form and head in for a visit with a supposedly "unbiased, trusted" advisor.

Mr. & Mrs. LB enter the offices and are shown the conference room. The broker is impressively dressed and surrounded by the aura of a Wall Street firm. Ma & Pa unveil their assets to the broker's waiting hand who says, "Not to worry…we'll take good care of you." The two conservative investors take a "risk-tolerance" exam to determine their feelings about gains and losses in a portfolio. They talk about goals and time lines, kids and grandkids, realities and dreams. Mr. LB tells of the last broker they were with and how they got burned and how they want safety with as little risk as possible. The broker acknowledges their concerns, telling them about the history of the prestigious firm for which he works. Mrs. LB is nodding approvingly. The broker invites them back in a week to hear the details of his specialized plan made specifically for Mr. & Mrs. LB. They leave with hope that the water may indeed be fine, this time.

Mr. & Mrs. LB come back for a plan they believe is designed just for them. Instead, they receive a cookie cutter group of investments the broker has been trained to sell. After viewing so many client statements from wire houses, I can actually predict what assets will be on the statement based on the company doing the investing. It is common knowledge among industry professionals that each major firm has a very predictable recommendation for each client. It may vary only by degree, but brokers are encouraged to make sales of the companies who own proprietary mutual funds and other assets that profit the investment firm over other, better, and more appropriate assets.

This is the Wall Street model and has been for years. Give Ma & Pa a belief that the plan is tailored to their specific needs, when in reality it's a group of assets the average conservative investor would never choose. They would gag if they understood the actual risk involved in the portfolio. Ma & Pa never really get what their conservative desires are after—a low risk portfolio. Yet, this is the Wall Street way.

In the long run, the average conservative investor needs a way to easily and confidently determine how and where to place their retirement assets. It's more than painfully obvious we need a new model, one Ma and Pa LunchBucket can understand with confidence. They might still need the assistance of a professional to execute the plan, but it would be Ma & Pa LunchBucket's plan, designed by Ma & Pa.

The final reason Ma & Pa LunchBucket need a new model is that Wall Street wire houses themselves don't believe in their own system.

> *"After a decade of pushing fee-based services, Wall Street is slashing and burning the infrastructure that has supported the business. The moves threaten to damage the long-term health of the wirehouse business model for financial advisers and their clients. On the new Wall Street, wire houses are gutting the home office staff that has driven the growth of fee-based business…Even getting a simple phone call returned from the home office is turning into a trial. Forget about one-on-one attention." (2)*

Remember, Wall Street has long run on the motto, "greed is good." This philosophy places those who sell the assets at the top of the food chain and the clients who buy the assets just plain camel fodder. So, if you feel like Wall Street's disconnected voice is calling to you saying, "come on in, the water's fine," get off the dock as soon as possible!

There is definitely a better way. There is a model out there that resonates with your conservative nature. It is proficient at connecting your desires with an appropriate financial plan. It is the "ABC Model of Investing." Let me explain…before you jump in.