EPISODE 348

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[INTRODUCTION]

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FT: Today's guest is a serial entrepreneur. He founded, led and grew numerous businesses in the financial services, real estate, media and text sectors. Robert or Bobby Monks as he goes by, is out with a new tell all book. It's called, *Uninvested: How Wall Street highjacks your money and how to fight back*.

An interesting perspective considering Bobby worked in finance for pretty much his entire life, his entire work life and so he is blowing the cover on how Wall Street works and he's got a lot to say. The book is really a way to teach Americans on how financial firms and money managers on Wall Street are profiting from our ignorance by over complicating the investing system.

Bobby talks about how the system is corrupt and what we can do to change it and he would know. He was once the chairman of Spinnaker Trust, managing over a $1 billion in asset so he's had quite the perspective. With Bobby, we learn how to seek out a financial adviser who is working in your best interest and is affordable. How to negotiate with your financial adviser to lower his or her fees and the costly truth about 401(k)'s.

Here we go, here is Bobby Monks.

[INTERVIEW]

FT: Bobby Monks, welcome to So Money. It's an honor to have you on the show. I'm curious to learn all about your latest book and of course, you're a veteran when it comes to the financial world. I would love to pick your brain and learn about your money perspectives. Welcome to the show.

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RM: Thank you very much for having me.

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FT: Let's get right to your new book, *Uninvested: How Wall Street highjacks your money and how to fight back*, that's quite a subtitle. Do you really feel that way, that Wall Street is high jacking our money? Why did you want to write this book?

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RM: Well, I think what we tried to shine some light on is the fact that the average investor is being systematically taken advantage of by the financial services industry and by average investor, we mean anyone who has a retirement account, anyone who has a 401(k) and anyone who owns a mutual fund.

We're not saying that every single financial manager is a boogeyman. What we are saying is that the system is broken and if you look at a couple of examples, 90% of the folks don't have to put the best interest of their clients first. These are often obscured, they are often multilayered, even money managers don't know how many fees they're actually charging their clients and it's the only business that I've been in. I've been in a lot of businesses where you get paid whether you make your client money or not.

So what we try to do in the book is to essentially de-mystify for the average investor who believe is quite overwhelmed right now. Where they are actually are in the system and what the system is like, we try to do that in "plain English". Then we offer some tools to the average investor so that they can essentially re-negotiate the deal that they have with their money manager and we gain control over their investments.

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FT: So I would love to hear from you for the average person who wants some support, some hand holding and guidance and advice with their money, what steps should they take in order to be in the best hands and to know that they are working with a fiduciary and to avoid these fees. Fees are unavoidable to some extent but to minimize fees I guess, what's the best strategy?

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RM: Well, I think the first thing as the average investor you need to realize that when you got to buy anything, let's say for example you got to buy a vacuum cleaner. And you go out and you look in the Internet, you research and look at a variety of different types and compare prices and then you just have to make a decision.

The decision about who manages your money is probably one of the most important financial decisions you'll ever make in your life. And so it's really important to take some time to really get comfortable with that person and what we articulate in the book, is a series of questions that you should ask your financial adviser.

To give you some examples of those, "Do you put my best interest first? Do you have a fiduciary responsibility to put my interest first? Can you tell me how many fees that I am paying? Do you invest in the same stocks that you're asking me to invest in? Do you get paid if I lose money? Do you vote your proxies?" And there's a number of other questions that I outline in the book.

The important thing for the average investor to know is they need to understand the answers that they get. They need to feel really comfortable with the answers that they get. And if they don't, then they should shop around to other places because especially in today's world, there are a variety of different places you can get your money managed.

There are some that are a lot better than others and the big question, the threshold question that you need to ask is, "Do they have to put your best interest first?" And usually registered investment advisers and trust companies have to do that whereas the big box companies don't.

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FT: Even if they are fiduciaries though, I don't know any adviser that has a fee structure that says, "If you don't make money neither do I." Even with my financial adviser, she is a fiduciary. She has a flat fee of underlying assets under management. So whether it's an up market, down market, sideways market, she gets her fee. Is there a way around that?

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RM: Well, there are people that are changing now. I've recently seen in ads and I unfortunately can't remember the name of the company that was offering. They said that if they lose you money for two consecutive quarters that they would reimburse you the fees and so again, the market is changing dramatically.

There are people that will reduce fees or delay pay partial performance type arrangement with you and I think right now a lot of fee compression because there's so much talk about it and there's so much competition out there for assets under management. So again, God didn't come down and say that money managers could charge a point no matter what.

It's a matter of negotiation and so you can negotiate with your money manager and you should ask them these questions. It's really important that also money managers have some skin in the game and that they invest in the stocks that they are asking you to invest in.

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FT: What do you think about, now that we're in 2015 -16 and you've been in this industry for many years, we're transitioning now to a place and I think it's only going to get more prevalent is robo-advisers. They hate that term, the robo-advisers hate being called robo-advisers but essentially online investment platforms that now there is a whole school of thought around plain vanilla investing, indexing your — using index funds that just investing in some simple index funds and it's automated over 30 years, you'll end up okay so why pay for a human being to watch out for you? What's your take on that new design, that new product?

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RM: Well, you know I think the jury is out on robo-investors. I think first of all, they made a choice to invest in index funds and like all mutual fund, index funds have their problems. Not all index funds are the same. If you read a prospectus for an index fund, often the total cost, associated total fees and expense ratios are not fully disclosed.

Trading cost are not disclosed and at the end of the day, the index fund don't really understand what it is that you own and of course, you have to pay the robo-adviser to tell you which index fund so that somewhat defeats the purpose of the low fees of the index fund. The other problem with index funds is if something goes wrong, there's nobody to talk to.

If you use a robo-fund there's no way that you can talk to somebody about "well what should I do here?" The other big problem with index funds I think is the fact that they systematically don't vote their proxies and so there's a lot of money that's left on the table as far as index funds are concerned. Now, let me give you a very simplistic example of that.

So let's say a CEO of a particular company gets paid $30 million and that's part of the proxy, their executive compensation, which is true. A company like Vanguard for example, 85% of the time they vote for management. Well they're voting for that CEO to get $30 million but in fact, in many cases the CEO doesn't deserved to be paid that much.

Every dollar that you pay to the CEO comes away from the shareholders and index funds don't really take responsibility for that in the broad market, which is not only bad for the specific shareholder but it's bad for the capitalism in this country.

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FT: You've been working very hard, you brought up CEO pay. Beyond this book, you're also, you work vigilantly to make corporate America more democratic. How would you characterize corporate America today versus 30 years ago? Are we in a better place? Have we made improvements and even if we have, where are the areas for improvement?

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RM: Well, I was the chairman of Institutional Shareholder Services and I have been for many years as well as proxy monitor, which is another shareholder's services company and I'm not sure if you are familiar with those companies but what we did was essentially vote for the proxies for institutions.

So because we had so many customers, institutional customers, we were often and the rest of us often votes for a high percentage of the proxies, any given proxy contest so it can be up to 20 to 30%. So in my experience, it comes from a place or that particular company had power to be able to resist the hedge amount of power of corporations because they had to get us to make a recommendation for the institutions to vote their way.

In that case, there is a counter balancing force but it's not enough, nor with the regulation that we have enough. Corporations, while I think made some strides, still have control over what happens. If you look at the fact that we do now have a say on pay, which is very positive. So we can affirmatively vote for against a CEO's compensation.

But it's still very hard to get access and be able to elect an independent selection of directors. So while I say we've made some improvements, there's still a long way to go before it's really a democratic process.

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FT: How did you get involved in the world of finance and I'm curious to learn your very first job and was that the moment where you realized "I'm in this for the long haul"?

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RM: Well, I've been a product entrepreneur my whole life. I started as a real estate developer and then moved on to operating companies and so again, I was the chairman and co-founder of ISS as well as Proxy Monitor. I actually owned ISS twice. I sold it once and then bought it back again and that really was stemmed from my father's work of corporate governance.

Then I founded a bank and then I was chairman of a trust company and have been invested in through much private equity firms and invested in various entrepreneurial things that I've done and I've also invested through private equity. So I've kind of been around the whole spectrum in terms of the financial services world.

So I really began to understand where the bodies were buried and what became apparent to me over the long run is that the average investor is really not getting a fair deal and that you're ending up with this two tier system; one for the average investor and one for the very, very, very wealthy. And that is not a sustainable system for our form of capitalism in this country.

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FT: What is your industry thinking now? All of your peers that you're coming out and kind of blowing the cover a little bit, not that I don't think anyone would necessarily so surprised to hear what you're saying but with this must come some braveness in a way because I can only imagine what some of your peers are saying to you like, "Why are you doing this?"

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RM: Right, "You're a traitor, what are you doing this for?" Right. Again, one of the great things about capitalism in this country is that people get to say what they think and the positive thing about this is that when we see a hole in the system and we don't think it's good for capitalism in the long run, we can stand up and say something.

And so I think what happened in the financial services industry is that overtime as we went from defining benefit plans to defining contribution plans, the financial industry begin to be able to service the 401(k) and the IRS and the system gradually became corrupted and so I think there's a lot of people in the industry now who feel that is corrupted and feel that it needs to change.

Clearly, that's not all of them but I think in some ways while there is a lot of resistance to what myself and others are saying right now, there is also a sense that, "Hey, we do need to change in this industry."

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FT: And really to address the millennials because I think for a long time, we underestimated the purchasing power of the young adults in this country but they are going to easily override baby boomers soon in sheer volume and they are a force to be reckoned with. Do you think the financial services industry is really in tune to that? I feel like they're not really changing their strategy to appeal to this demographic.

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RM: I don't think they are at all and I think one of the things that is reflective of where the millennials are and my own children are a part of that, is that they want to disintermediate and what that means is cutting out the middle man and guess what the financial services industry is? The middle man and you see that in all the different Uber products that are out there.

They're much more interested in direct investing and not having to go through some form of intermediary. So I don't think that the industry is really prepared for that and I think that the whole financial industry and the way we invest is really changing at lightning speed right now and so if folks don't keep up with that, they're going to be history in my opinion.

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FT: Yeah. Well, I'd love to learn more about you. What's your financial philosophy? If you have to encapsulate it in a sentence or two, what's your money mantra?

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RM: Well, do you mean in terms of investing in the stock market or in terms of an entrepreneur?

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FT: Well, I suppose for our show in terms of investing and personal finance.

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RM: Well, I think at the end of the day, what I believe is the best system that you can follow is to invest in those companies that you know something about and to invest in 10 companies, you can get very diversified by investing in 10 different companies. You invest in Google or Exxon or any multinational company.

They are very diversified so you don't necessarily have to invest in a mutual fund or an index fund to be diversified. Again, look at the companies that you know, the products that you use, do you like those products? Do you think they're going to go well? And then hang onto those companies for a long time.

You don't have to sell them every time the market goes down. You certainly don't want to day trade but the effect of that is, that there are very little fees that are associated with them. There is a reporting process that is fully intelligible so that you understand that "these are the stocks I own and this is what happened this month. This is what happens next month."

You don't have to go through AAA reporting processes that nobody could read or understand and again, if you look at, for example if you invest $25,000 over 35 years at a 1% fee with the average return of 7%, the 1% fee costs you $65,000. So if you're a young person investing right now and you're invested through a 401(k), you're paying the average 401(k) is 2.5%.

It's very hard to get over that. It's very hard to make up for the big bite it's taken out and so if you have for example a self-directed IRA and you invest in your own stocks, I believe you have a better chance of doing well.

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FT: On the other hand, people would say, "If it wasn't for the 401(k), I would have never invested to begin with. I love that my company gives me a match. It's convenient, it's automatic. I'm not really good at consciously saving," so there is that benefit which is hard to put a price on that.

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RM: Yeah, well there is that benefit but just because you get a match doesn't justify being raped by fees and again, the problem with the 401(k) is the idea, it is a good idea but the financial services industry stepped up and figured out, "Well how can we melt this process as best as we can?" And that's not good for the average investor. It's just a bad system.

There's too much legal larceny in the 401(k) process right now and there are too many fees charged to manage it and too many layers of intermediaries. So, I believe that folks would be better off with self-directed retirement funds where you can get the same match but you're not forced to choose from a very limited menu that's provided to you and often, it's not good for you.

Do you do know how, for example, 401(k) what was a totally legal process which is called revenue sharing, are you familiar with that process? Well revenue sharing basically is a mutual fund which pays an administrator to get on the menu and that is completely legal and it is basically doesn't look out for the individual employee at all.

It's just what's better for the mutual fund and better for the administrator. So the president himself has said that $17 billion a year is lost and collected in conflicted advice with retirement products and that's a huge number and that's money coming right out of the individual investor's pocket.

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FT: Do you see companies changing their offerings? Do you see that 401(k) industry changing anytime soon?

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RM: I do, I do. I think there's more and more that's coming up about the 401(k) and how negative it is and how many fees are being charged. I don't think employer and I mean I as an employer don't like the 401(k) system. Znd so I think that if you look at some really intriguing legislation that's trying to eat its way into congress but it's also trying to get to various states right now that looks like a hybrid between the defined contribution and the defined benefit plan.

I think that within the next five years, you're going to find that there's going to be a much more comprehensive retirement process that eliminates a lot of problems with the 401(k).

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FT: Well, Robert Monks, you've given us a lot to think about including me. I actually had a conversation, it's really funny that I'm talking to you today because just this morning I was having my quarterly conversation with my financial adviser and I love the team there but I had to have an honest conversation with them about their fees.

I looked at how much I paid in 2015 and the market didn't do that well and I said, "Look, it's not a reflection of your investment strategy for me but I just feel like if I'm going to stay with you guys for 30 years, there's lots and lots of money in fees when I don't even really think that my portfolio needs to be so sophisticated and so intensely managed," right?

I mean they would obviously disagree but I just felt that and I said, “Look guys, I don’t want to make any knee jerk reactions but I’m going to start looking at some alternatives because the fact is, there’s a lot of options out there these days.”

And I think the firms that are winning are the ones that are realizing that. And saying, “Look, I know we had a fee structure when we started but we’re going to be flexible because we want to keep your business and we want to be with you in the long run and we know that there are a lot of other options out there”. So whether it’s adjusting the fee structure or like you said, “If we lose money for you after two quarters then you don’t pay us.” I think that would be nice.

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RM: Yeah and I think that the fact that the competition out there is doing that right now so there’s no reason why you shouldn’t go back and I think that one of the things that I think when you’re talking to your money manager is to get them to put down in writing what all the fees are all the way through. So their fees, the mutual fund fees, the index fund fees, the liquidation cost.

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FT: They did that, I’m happy to say.

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RM: Did they include opportunity cost?

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FT: I don’t think they went that far but I will say that the fee structure of our portfolio is I think pretty good in good shape. It’s a fraction of a percent, we’re in very low fee investments.

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RM: All right, are you invested in mutual funds?

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FT: Some, yes but…

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RM: So have you ever read a mutual fund prospective?

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FT: Oh yeah, I'm not a fan.

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RM: I mean to do so, it's impossible to read so nobody reads them.

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FT: Yeah.

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RM: So I hate to tell you this but nobody knows how many fees they're actually charging you because nobody reads the prospective for mutual fund. The other thing is that opportunity cost is a really important thing to remember about because again, you go to your money manager and they'll tell you, "Okay, we're going to invest 80% of your portfolio to keep some money in cash," but you're being charged for that cash. So your total returns need to include the fact that you're getting a negative arbitrage off that cash.

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FT: Right.

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RM: So that often doesn't get calculated into the equation when people are getting their reporting and I think one of the big issues is how people relate to some of the products and some of the things that are coming out now as far as private equity and venture capital are concerned. A lot of people don't have access to those investments and I think that's unfortunate.

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FT: Well, thank you. Thank you so much. This has been really eye opening for me. I'm sure my listeners will agree. Thank you so much and congratulations on *Uninvested,* an important book, how Wall Street highjacks your money and how to fight back, that's important. Thank you so much.

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RM: Thank you, I enjoyed it.

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[END]