

EPISODE 108

FT: David Stein. Welcome to So Money. An honour to have you on the show.

[00:01:49]

DS: Great. Thanks for having me.

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FT: I would love to start by kind of asking you a little bit about your professional transition where you were at one point, you know, Chief Investment Strategist, Chief Portfolio Strategist at Fund Evaluation Group - a multi-billion dollar institutional advisory, investment advisory. You led a big team there, you managed endowments, foundations, financial planners. Now you are a solopreneur in many ways. You know, you left that, in many ways a very exciting career, to do something that was more personal, more kind of solopreneurship. How was that transition for you? I'm curious because for many people, especially listening on the show, they want that transition. They want that journey. They wanna leave the 9 to 5 to do something on their own. What gave you the - what was your 'ah-ha' moment, and then what gave you kind of the courage to make that happen?

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DS: Well, my 'ah-ha' moment was, I was speaking at our annual conference. So we had 3-4 hundred clients on from the, mostly not-for-profits, but a lot of people in the financial industry. And I remember being on the stage and the presentation was going well, and as always with a presentation, when you talk you've got that little voice going through your head, and at that moment that little voice said, "You've peaked. You sorta have reached the pinnacle. There is no higher you can go in this existing profession. You're already a senior partner with your firm, you're managing a team," and that little voice really started questioning. I was in my mid-40's and I was making a very, very good income, but I also just felt like if I stayed I would just be waiting out the clock. Like in a basketball game. I really needed to make a change.

And I talked to one of my mentors, a friend. And he says, cause you know my biggest concern of leaving is loyalty. You know, I had these partners, we'd been together 15 years and I didn't really want to let them down. On the other hand, my friend says, "You know when it's time". And I think for people considering a transition, just listen to the voice in your head. Cause there will be a time, and you'll just know. And so I took the red eye one night, and showed up at our executive committee meeting, and I let my partners know that I was leaving. And I remember being in the hotel that night just laying in the bed thinking, "I could do anything I want with the rest of my life!" But I didn't know what it was, so! But I left, I left.

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FT: [Chuckles] Wow. So really you were at this point in your career, where there was - you went from having a lot of certainty in your life professionally to a moment where you're just like, "I don't know what the next step is going to be". What did your family think of this move? Were they supportive? Were they also scared?

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DS: They were very supportive. I live in Idaho. I telecommuted for 10 years so it was not - my wife [Laprille] was not worried about, "gosh this guy's suddenly gonna be home all the time," cause I was already working from home for a number of years. And they were excited because, and [Laprille] has always been - she's a risk-taker. In many ways much more of a risk-taker than I am. And she said, "Go for it!" And my kids were happy because I could spend more time with them, particularly my teenage daughter. And she, you know, she's 17 now. So it's been three years and we've been able to travel together as a family and just spend a lot more quality time. Cause before, I travelled a lot. And it was helpful to work from home, but I'd probably spent, you know I travelled over a million and half miles over a period of 10 years. So it was good to not have to travel anymore.

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FT: And in many ways what you're doing now is not a stretch from what you were doing before. Except now you're doing it on a more personal kind of, you know, you're really bringing your

voice to play. You're helping people connecting with them on your podcast, your blog. So it's not this far-removed, new venture. It's very much in-tandem with what you were doing previously, except kind of more on a micro level.

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DS: It is. And it took me a while to get to that point because, literally when I quit my job, the next day - in fact I was on the airplane flying back to Idaho on my last day. And I launched this new website because in the money management business I was very competitive. And I managed portfolios, and the key was to outperform the benchmark. And I thrived on that. But I just didn't like the structure back at my old firm. Just some things that changed with our teams. There's, whenever you leave a firm, there's always multiple reasons. So I launched this business, and I realized within six weeks I'd made a mistake. I absolutely hated it. I was miserable because I had quit my job and started the exact same job with all the pressure of managing money. And I shut it down on the advice of a friend. And so it's taken several years. And I realize the part about investing that I miss was just teaching people, talking to them, and I love being able to talk - just how intimate a podcast is. To be able to share and answer emails and take questions. But not doing - I no longer give investment advice. So I just, I like to be able to give the education without having to feel the pressure and the responsibility of managing someone's money.

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FT: As someone who also has a podcast, I find that there are recurring questions that my listeners tend to ask. It seems everybody wants to know, "How do I know when I'm ready to work with a financial advisor?" That's like my biggest question that I get among a few others. What is your biggest recurring question?

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DS: Well, I get that one a lot - "Should I hire a financial advisor?" But I get a lot of questions on, cause I talk a lot about how the economy works. So I get a lot of questions on particular investments. A lot of people ask specific investment advice. And I can't give that, but I usually

point them to maybe an audio lesson that I've done on that topic. But people want help. And they want help from people that they can trust. And that's what's so wonderful about podcasting, is there is no better forum to have people learn to trust you cause they get to know you, and it's very hard to be disingenuous when you're speaking. People can pick up, when they listen to a voice, who is being genuine and who is not. And so that level of trust really is there. And so I get a lot of specific questions, "How can you help me?" And then I try to teach as much as possible without telling them exactly what to do.

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FT: Yeah. No you're absolutely right about that. And the other thing about podcasts is like, you could be having a really bad day, and it'll show, you know? Or like, you could have a cold and it'll show. And so then people get to see this multi-dimension to you that they don't get through a blog post or through a polished media interview on TV. It's like, it's very raw. And so for better or worse.

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DS: Oh exactly. Last week I recorded in the early morning, I had this song stuck in my head, and literally - I'd made up some lyrics and I sang the song. And afterwards I said, "I cannot believe I did that!" But I didn't wanna re-record the thing, so I published it and I said, I told people, "You'll never hear me sing again". But that's me! And I felt like singing this 30 second song. It did apply to the topic, but - so yeah. It's raw. That, I mean, it's a great term for it. It is definitely raw.

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FT: It is raw. Yeah. I love it. I think it's great. I think it's - and that's why it can create this intimate forum. Because people are getting you at, in a way that, you know, 'unplugged' as MTV would say.

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DS: Exactly.

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FT: What is your biggest financial philosophy David? One that helps guide your financial choices, but also is, you know, is reflective of how you also coach people.

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DS: Really there's two. The one is "focus on the extreme, not the expected outcome". And what do I mean by that? Most financial advisers, they might be doing an asset allocation strategy or financial plan and they always focus on the expected return. "What do you expect will happen?" And I learned very early in my career that I shouldn't worry about what's expected to happen. I should worry about worst case scenarios and prepare for that. So I focus on extreme. Particularly in the financial markets because there's major flaws with traditional financial theory in that markets are way more volatile and way more clumpy in the sense that 'bad things tend to clump together' in markets way more than traditional financial theory suggests. And so when we just focus on expected return, we leave ourselves open to extreme events.

And so I am a very, very conservative investor, and I teach my listeners how to manage for those extreme events. And so you never get caught - you're not 55 and have 80% of your financials and the stock market crashes and you mess up your retirement plans. You'd never wanna be in that position. Certainly when you're younger, you can avoid that. The other thing though is, there was an economist back in the 70's named, E. F. Schumacher, and he wrote a book called "Small is Beautiful". And one of his saying from that book that really resonates with me is, "We need to maximize our well-being with the minimum level of consumption".

And so, throughout my life I'm trying to - "How can I maximize my happiness, my joy by spending as little as possible?" And that doesn't mean to be frugal, that means there is a balance there between maximizing that happiness in life but not overdoing it. And so one of the challenges for all of us is to figure out where is that level? What's the choices that I can make so that I can have that well-being maximized but I don't have to spend so much money? And try to do it on as little as possible, but you don't wanna completely cut it out.

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FT: I saw this on your blog. You call this the "Mean?" Is that right?

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DS: Yeah. Well yeah, that would be, it's the golden mean is an example. That would be a way sort of - Aristotle talked about the same thing. You wanna find sort of that happy medium between you've maximized your joy, but you're not overdoing. And that was a big theme of Aristotle. To never, not to do too little or too much, but to find what he called "the golden mean".

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FT: Well in some ways its, you know, this philosophy that less can be so much more. I've interviewed people who live in tiny houses, and for them this is a way to really downsize, extremely. But more, it's through that lifestyle they've learned the beauty and the joy in other ways to live simply. You know, whether it's having your own garden, or riding bicycles instead of having two cars, you have a bicycle that replaces one of the cars. And so I think that as soon as you make a small tweak, not that a tiny home is a small tweak, but once you make one decision to live simply it sort of opens your eyes to other possibilities that can bring you a lot of joy with not spending a lot of money.

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DS: Well exactly. And then, take the small home for example. We downsized our home. We moved into this 1,500 square foot home, but all we did to open it up is we knocked a hole on the south wall cause there was not windows. And it's amazing the change it can make to a small house just by having windows on perpendicular sides and opened up the south. Cause you feel like you're outside. So it's things like that that you can live rich without the money, just by kinda knowing well, how can you recreate that experience of wealth without necessarily having to spend all the money. And it can be done!

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FT: I put mirrors in every room because it makes the room look bigger. So how bout that?

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DS: Well yeah. There you go.

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FT: And we are going through a renovation right now, well soon. And one of the things that we decided to do was break down a wall that's gonna give us more sunlight when you walk into the apartment there's more of like a 'wow' factor as a result, you know? And so I'm all for the open floor layout plan. Especially in small spaces because you get more sunlight, it feels a little bigger, more spacious, so yeah. And see, that didn't cost much money either.

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DS: No. And it'll transform your apartment. I mean, it'll make you happy.

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FT: It will. It will. That's a great, great philosophy - actually two philosophies. What is your greatest financial memory growing up as a child that did influence you either in a good way or a bad way?

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DS: I grew up in a single family household. So my parents got divorced when I was 10. My dad was an alcoholic, and my first really significant money memory was not having very much and realizing that. First of all, I grew up in a very Catholic community, so the fact that my parents were divorced was very much an anomaly. I think there was one other person in my class of 100

whose parents were divorced. And I was one of the only students getting a little free lunch token.

And so I really realized that, and then my mom left cause she had to go work. And my mom, when she had graduated from high school had a choice. She decided she could either go to college, or she could buy a car. And she bought a little red sports car and as a result wasn't really in a position to care for me and my sisters. So she had to go out and work and she sold tupperware, she made dolls. We would go to - she would do flea markets and all type of things - we were on food stamps. And I realized sort of how vulnerable we were.

And probably a telling memory was realizing we didn't have enough tuition for me to go back to my Catholic grade school and being absolutely terrified that I would have to go to the public school. And it turns out, somehow the money came but it was at that time that I realized, I need to find a way to make money. And we saw, I was reading the Cincinnati Inquire, and there was a full page ad, and there was a man there talking about, sort of his financial freedom. He had this big picture of his motorhome and how he was traveling the country and making money. Well, he didn't say online cause online didn't exist. But he was using mail order and I convinced my mom to buy this set of books. And this was, I was probably 11 at the time.

So for about three years I was so focused on making money. I mean I read Napoleon Hill, "Think and Grow Rich" and "The Greatest Salesman in the World", and all these books. And I started these businesses. I was gonna do a handwriting analysis business. And I put an ad in the paper and I got the P.O. Box, and I was so excited to open up that P.O. Box with all these orders, and there was nothing there. And I said, "Well I just needed to make a bigger ad". And so I went national and I was gonna do this research service, and I - same thing. And nothing there.

So I had these early failures, but I just had this desire that I needed to control my destiny. So later I started a business washing walls and windows, and a lot of my businesses were failures cause I was just terrible at it. I remember washing windows, that was my business. I was a professional window washer, and I was using a squeegee, I'd read how to do it in a book, cause I'd go to the library and learn all this stuff from books. I could not get the streaks out of the

window. And literally my client had to lend me some windex and paper towels to wash her windows.

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FT: Windex heals all.

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DS: Exactly. So those early memories, just realizing I needed to find a way to control my destiny cause I didn't wanna be in a position where somebody else not having the money would cause sort of pain for me, and fear. Fear to not be able to go to school where I wanted to go.

[00:18:18]

FT: Yeah. What would you say was your greatest financial failure? I almost don't feel like you have any, but maybe there was a moment that wasn't your best financially. It doesn't have to be this big catastrophe, but maybe it was a time, an event, an experience that you kinda wish hadn't happened.

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DS: Well I can give you one that we're experiencing right now.

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FT: Oh!

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DS: Back at the bottom of the real estate market. We have always, we live in Idaho, we've always wanted to buy land in Teton Valley, overlooking the Tetons, cause it's just on the other side of Jackson Hole. And we bought this 80 acre farm with this house, way big house. About

4,000 square foot house. Way bigger than we needed. But they sort of threw this house in for free. And we just fell in love with this place. And so, we thought we could tear down this place, redo it. So we decided to redo it.

So suddenly I have a significant amount of money and this vacation home, which has been wonderful for friends and family to come visit. But across the street there was this abandoned gravel pit that I didn't really pay any attention to, and last fall it started up again. And suddenly in my quiet serene setting I have dump trucks going up this dirt road every three minutes. And I've worked with the county and they say, and I won't get into the details, but they say there's nothing you can do.

And so I now see this very large investment's property value has been impaired significantly. And I dunno, we've put it up for sale and we'll see how it works out. But I am already stealing myself that this is gonna be a pretty large financial loss. And the mistake was, I won't say it was a mistake to buy it, but it was a mistake to completely focus on the emotion and how cool it was, and not sort of do all the due diligence. I could not have missed that gravel pit. I should've done - I used to be on planning and zoning commission in our town. So I should've done the due diligence. I didn't do it. And it's a financial mistake. And you just have to sort of check the boxes and not always make decisions based on emotion.

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FT: Yeah. And with real estate it's very easy to get caught up.

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DS: It is. And that's - we've made money on houses, we've lost money on houses, we've lost a lot of money potentially on this farm. But what I do better - some people are better with the physical investments. I know a lot of farmers that that's the only way they invest. They like the real estate. I like paper assets. I like virtual investments. I can emotionally distance myself from them easier than I can walking into a beautiful home and wanting to buy it just cause I like the feeling of it.

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FT: Yeah. Well, I wish you the best of luck with that. And hopefully it won't be this huge detriment on the value, but like you say, focus on the extreme and not the expected income.

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DS: Well the other thing is, these things happen. And it'll hurt, but it's not like it's gonna ruin my retirement. It's just gonna hurt, kinda sting. Made a mistake. You never wanna put so much in any investment that if it goes badly, you're significantly impaired. So that's another example, just focusing on the extreme not what you expect will happen. And protecting yourself against that.

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FT: What would you say is your greatest success financially? A 'So Money' moment?

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DS: Well I think what allowed me to retire. The fact that back when I wanted to manage money - traditionally at my firm, we're a consulting firm, so we just would make recommendations to these not-for-profits and they would sometimes take our advice, sometimes they wouldn't. So would always work with these boards. But I wanted to manage money. And so I created a financial product that I thought would just be incredibly smart. We researched money managers. I was gonna get the best money managers in the world, that we researched. I would take their top five holdings and create this great portfolio. And I could already envision these big houses I was gonna buy cause of how successful this was gonna be.

So I spent a six months back-testing this idea. And it didn't work. It didn't outperform the market. I was so discouraged because our business was researching managers and how could a product that we had our best manager's best ideas not outperform the market? And I spent time, and I realized, many times when they outperform, it's their factor exposure. It's just their value tilt. And as a result I created a completely different product just using passive, ETF's. And I would adjust the factor exposure, and I would adjust the allocation. I back-tested it, it worked.

We started marketing to our clients and eventually it came to be 25% of our firm's revenue. The same time we had bought out our parents.

So now we own the entire company, and that combination of that product, and the combination of the buyout that was successful, allowed me - where I could say, "Alright, I know what my partners owe me if I decided to leave". And I looked at that number, and it was just a number on paper. And I thought, "I could realize that number by quitting," and that's what I did. Cause then I don't have to worry about retirement. I still needed, I mean I like to work, so I still work. But that was the financial success. It was some of my own ingenuity, it was a great deal of luck in terms of timing of our leveraged buyout, but I have to point to that as certainly something that worked out for me, and my family.

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FT: Yeah absolutely. Gave you a lot of security to be able to experiment with something new. And we all hope for that someday in our lives.

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DS: Right.

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FT: What would you say is one of your greatest habits?

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DS: In our case we do an annual budget. So some people like to do an annual budget. I find that our expenses are so variable because we like to travel, that I do an annual budget and I look at it once a month. So every month I look at, "Alright here's our assets, here's what my performance was in terms of my portfolio, here's what we spent - but always keep it in the context - here's the annual plan". So that's just a simple, look at it once a month, but do an annual budget.

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FT: Alright. We are almost wrapped here. And before we go, I would love to ask you, well actually have you answer some So Money Fill in the Blanks. So I start off a sentence and you finish it. The first one is, if I want the lottery, let's say \$100 million, the first thing I would do it _____.

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DS: I'd start an impact investing firm. Which is a, really a firm, or join up with one, where you invest in people and projects but you're willing to accept a lower rate of return than you might otherwise because of the social impact that it has. It's an area that fascinates me so I'd spend more time on that.

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FT: A lot of my listeners have been writing in, not a lot, but enough where it's clearly something that they're interested in - is about social investing. What are some resources that you would recommend people check out to learn more about this?

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DS: Well I think if you just, if you Google 'impact investing' that'll bring up a, just a wealth of information in terms of how to do it. On a social aspect, when you talk about social investing there's social responsible investing, which is completely different from social impact investing. In my case I'm very much into, "How can I help people, but do it in a way that's sustainable?" So if they're generating some type of return, people are more willing to stick with it. And that's the beauty of it as opposed to just giving money to someone. If you invest in them, then it becomes much more self-sustaining.

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FT: The one thing that I spend my money on that makes my life easier or better is ____.

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DS: I spend a lot of money getting my hair cut.

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FT: Really?

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DS: My - yeah! I used to travel all over, and I actually had hair stylist in different cities. Well, my hair is very straight. And somebody told me once, "Your hair is like cutting a Bonsai tree". And I like to pay for art. And it gets back to, "How can I maximize my well-being with the minimum of consumption?" So I had this challenge. How much did I have to have to pay for a really good haircut without overpaying? And so, I just like a good haircut. And I can pay a lot less in Idaho than I can to the person I used to go to in New York or San Diego or in Seattle, but yeah. It's one of those things. I have a Bonsai tree on my head.

[00:27:02]

FT: Well you know, as a woman who spends a lot of money on hair and hair colouring and all of that. I mean, I think a lot of women pay more money than they are willing to admit on hair styling, and it's sometimes a discriminatory thing because if you're a women with short hair and you just want a trim, chances are it costs more for you than a guy with the same head of hair. So I kinda take pleasure in hearing that you're spending a little bit more than average on your hair. For once, a man spending a little bit more money on his haircuts.

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DS: I have spent \$100, over \$100 in New York to do that. And, which is expensive. And, but I don't spend anywhere near that now. I found a way to lower the price, but yeah. It makes you feel good.

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FT: One thing that I splurge on, now this might be the same answer, but try to think of a different one - that I spend too much money on is _____.

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DS: I - too much. [Chuckles] We splurge on travel, and I splurge on clothes. But not, not just buying as much. It gets back to - I buy a lot of used clothes. We've spent a lot of time at vintage stores growing up - thrift stores. And I find that clothes is art. So I like to buy clothes in the sense of trying to find a wardrobe that'll last forever. How can I find the best quality classic items? And it's just a hobby. And I think about this as a kid and realize you know, even as a second grader, I loved my pair of plaid purple pants. I mean, which is bizarre. They were bell-bottoms, but some of these things that you like as adults start out very, very young. And who knows where they come from!

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FT: One thing I wish I'd known about money growing up is _____.

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DS: I wish I had a better sense of how little we had and how close we were to being homeless. We happened to have a home with a \$125 mortgage payment. And I think if I'd - I mean I knew we didn't have money, but I guess I, I wish I had been more empathetic to my mom and her not knowing where the next dollar was coming from. And, cause I think I coulda been more helpful. I mean, I wasn't - I was a good kid, and - but as a kid you're a kid, right? When you're an adult and you're thinking things you wish you woulda known. I wish I coulda been more adult-like as a kid. Shown more empathy.

[00:29:35]

FT: Well I think it's true. Yeah. A six-year old can't do much. But maybe a 12-year old, a 13-year old, a 15-year old could understand kind of the situation and can contribute in some way, and I think kids want to help. You know, I think parents sometimes underestimate, first the ability for their children to pitch in when times are tough, but also the level of desire that kids actually have to contribute to their family in that way. Kids wanna feel involved.

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DS: And I did help. I mean, I was responsible for the water bill. I had to raise money for the water bill. So I helped, but I didn't, you know, I might have done it more willingly had I known exactly how little income we actually had. And that's one thing I've done with my kids. My kids, when we talk about annual budget, they know how much money we have, we know what money we spend on. When we traveled to Europe and Asia we showed them, "Alright, this is what it cost to travel." And they realized that. And my son said, you know he realized it was a lot of money. So he went back to Japan and learned to travel on \$1,500 for two months.

[00:30:24]

FT: Wow! Woah.

DS: And so there's ways to travel, and there's other ways to travel. And so, but you have to be transparent with your kids cause they have no idea. And so we've tried to do that with ours.

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FT: How old are your children?

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DS: Our oldest is 23, we have an 18-year old - or I'm sorry, a 19-year old and a 17-year old. So they're grown now but that's something, the other guilty pleasure, we always travel with them because we wanted to see how other people live and how different the other people live so that they have a more broader perspective.

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FT: When I donate money, I like to give to _____ because _____.

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DS: I like to, I'd give to charity, but I like to individuals that I can have more of a direct impact. So example, helping a single mom who just got divorced come up with a downpayment to buy a house to move her kids. And that something I did for my son's friend cause otherwise they had to move out of the city. So we could help them. So something we just, and you know a lot of times we don't, you can do it anonymously but we wanna, I like knowing who we're gonna help and the impact, and that's just how we like to do it.

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FT: And I'm David Stein, and I'm So Money because _____.

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DS: I love to teach others about money, how it works, and how to invest it, and more importantly, how to live without worrying about it.

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FT: Yes. And I learned so much from our conversation. Focus on the extreme, not the expected outcome. That there are major flaws with traditional financial theory, and how we can all maximize well-being with minimum amount of consumption. Very well said. Thank you so much. And share with us where we can learn more about you.

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DS: You can, my website for the podcast is moneyfortherestofus.net. I'm also on Twitter @jdstein.

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FT: Perfect. Have a great rest of the week. Thanks so much for your time.

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DS: Thanks Farnoosh.

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