EPISODE 481

[INTRODUCTION]

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FT: Welcome back to So Money everyone, just weeks now until the election and many of us are feeling very insecure about the years ahead and what's that going to mean for our portfolio, our money, are you confident with your investment strategy? Do you wish you knew more about how to invest? I've got a guest today that's going to help us because he is an expert on investing among other financial issues. New York Times bestselling author of *Rescue Your Money: How to invest your money during these tumultuous times*, Ric Edelman is here today.

Now the book was originally published in 2009 because as many of us remember very vividly, that was right about the time of the financial crisis and we have a lot of uncertainty back then. And he has updated it to reflect today's economy, given the looming election, terrorism, uncertainties in the economy. So Rick has been on the show with me before as some of you may know back in the early days of So Money, Episode 52.

And on that show, we got to learn more about him, his philosophy, his failures, his successes. But this episode is more about what we can do now to protect our money. A little bit more about Ric, he's the founder and executive chairman of Edelman Financial Services. He's been ranked the number one independent financial adviser by Baron's three times and he has eight other books and he's sold over one million copies collectively.

Here is Ric Edelman.

[INTERVIEW]

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FT: Ric Edelman, welcome back to So Money. Nice to hear your voice again.

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RE: You too Farnoosh. It's always good to be with you.

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FT: So since we've spoken you've come out with a new book. It's called *Rescue Your Money*. It's a very timely book. I think a lot of us are feeling uncertain given the looming election and Brexit and there is so much to be hashed out. Do you find that your clients are coming to you more and more now with the worries, fears and uncertainties?

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RE: Well you know it is interesting, I originally wrote this book back in 2009 because of the credit crisis of '08. Talk about the fear and panic of that era. We all remember that so well and I discovered that we are having many of the same anxieties today. The situation is totally different than it was in '08 but fear and panic and anxiety, confusion, downright anger is palpable today like it was then. And I realized that people really enjoyed my book, *Rescue Your Money*, but the data had become a little bit old because I wrote that book seven or eight years ago.

So I wanted to revise the entire book, bringing it up to date with the latest statistics information content so that it's as valid and as applicable today as it was back in '09 and so yeah, that was my motivation Farnoosh. It was to get this book into people's hands because there is a lot of anxiety going on around this country and people really need the message that this book offers.

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FT: Is the advice the same in the sense that the advice is always, it seems, that when there are tumultuous times and volatility in the market that the response should not be to move instinctively and abandon your investments and withdraw from the stock market. That it is really about staying the course?

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RE: You're exactly right. Everything I wrote in the book in '08 and '09 remains valid today. I just needed to update the statistics and data to demonstrate that because the data only went through '09. I needed to bring them forward all the way to 2015 and you're exactly right. People keep making the same mistakes over and over and you're wondering how come they're not getting rich?

It's because they are doing the same dumb things that are preventing them from getting rich in the first place, they keep doing it over and over again. And we need to resist the emotional tendencies of making bad investment and financial decisions. It's understandable why people do. We are creatures of emotion, we are human. But unfortunately, that's not how the financial markets want you to behave.

If you want to achieve financial success, you've got to separate your emotions from what you know intellectually is the right thing to do.

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FT: How do you do that? There had been books on this as well, I've written my own version of it, *Psych Yourself Rich* and there is a lot more rhetoric now around how to, like you say, separate your intellectual brain from your emotional state. But how do you actually do it?

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RE: I think that it is possible to learn and that's where it begins. Your book on the subject, I've written extensively as well about behavioral finance and neuro economics. It begins with that notion of education. Most people don't realize that they're making emotional decision making. They don't also realize that our brains are designed to trick us into making bad financial decisions.

It's because of the evolutionary process. What protected us from lions on the safari in the savannah of Africa is what has been engrained into our brains and unfortunately, that fight or flight approach works against us in the world of financial decision making. So we have to recognize number one through education, why do our brains do this, both physiologically and psychologically?

And once we have that knowledge, now we can take a step back and recognize, “Oh I’m feeling this way,” whether it’s fear or greed, “I am feeling this way and now I can intellectually understand that,” and that can go very far into helping people break that pattern that they previously had followed.

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FT: Since you published the book first in 2009 to today, what are we doing better? Have we made improvements and strides in some regards?

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RE: We have and that’s the really good news. That’s the silver lining in this whole thing. People who went through 2009 had an experience that was unique in their lifetime. They saw the stock market fall 65% over a year and a half that was a far greater decline than they have ever experienced over a far longer period than they have ever experienced because they weren’t around in the 1930’s.

Most of us weren’t alive back then and the few of us who were they were children at that time so they really didn’t fully appreciate the impact of the economic environment of the Great Depression. And so for the 2008-2009 credit crisis, it was truly new and different for everybody and everybody was so scared that the prices were going to continue falling all the way to zero that it caused an incredible level of panic that forced people emotionally to sell their investments because they simply couldn’t take it anymore and they were afraid to continue watching their life savings dwindle down and down and down.

Well we got passed the ’08 credit crisis. Today the stock market is at an all-time high. We are now three times higher in value almost than the lows of March 9 of ’09 and people have learned that lesson. They realized, you know, “Golly gee, it does work out in the end,” as it always has throughout recorded history. Markets collapse, they always recover. We don’t know how long it will take to recover. We don't know how big the recovery will be, but they always get better after the storm.

And so when we enter the next problem, people are less likely to panic because they say, "Oh I've seen this before," and they are using the benefit of their experience. I wish people wouldn't rely on their personal experience. I would prefer that they rely on world experience. If you had gone back to the crash of '87 or the crash of '29 or the panic of 1870 or all of those that have occurred throughout history, all the way back to the tulip craze of 1636.

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FT: Tulip craze?

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RE: Yeah, it's one of my favorite examples of behavioral nonsense that people would learn from other people's mistakes you can learn faster, you could learn easier and you can learn with less personal pain.

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FT: Right. Another piece of advice maybe along those lines is that when the sky is falling that that's when you should be buying. That's actually a good time to buy low and then later maybe sell high.

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RE: Exactly right and that's the fundamental theme in the book. It's titled *How to invest during these tumultuous times,* and that's what I'm trying to convey in my book, *Rescue Your Money,* is to demonstrate you need to exploit periods of unrest and uncertainty rather than becoming a victim of it and doing what the masses do, which is selling in a panic.

Look at Brexit, everybody was in a hissy when the British voted to leave the European Union and the stock market fell for the next two days, creating a lot of panic among the US investors. Well that was an opportunity to exploit that opportunity. For the moment, stock prices went on sale. What a great buying opportunity! And that's what smart investors took advantage of.

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FT: Let's talk about people who are approaching retirement. Many Americans who feel financially insecure, unprepared for retirement, what's your advice? Is it just "delay retirement, continue working"? Or is there a way to actually plague savings catch up?

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RE: All the above. So yes, you need to take advantage of catch up and in fact, the government makes it easier for you. You can contribute more to your IRA and your retirement plan at work than people younger than you are able to do. So you can literally "catch up" by adding more to your savings. You need to reduce the expenses as much as you can now to free up as much cash as possible that you can use to save and invest.

You need to do two other things that most people tend to ignore. Number one is to make sure that your money is invested in a way that gives you the best potential for earning the returns offered by the financial markets. If you are going to throw all of your hard earned savings into bank accounts where it is earning zero point nothing in today's environment, I don't care how hard you work. I don't care how much money you save. You'll never going to be able to accumulate enough wealth.

You've got to have your pennies earning pennies. It's not enough that you save pennies, you have to get the pennies earning pennies through compound interest, compound growth and that means you've got to invest where you have the potential to earn six, seven, eight, 9% per year. Earning zero or one or 2% a year isn't going to cut it.

The second thing you need to do is look for innovative unique ways that you can earn more money than you were and that's never been easier thanks for exponential technologies and the internet. You can do all kinds of things to make money on the side in your part time. Everything from renting a room in your house through Airbnb to driving your car to make money on Uber to engaging in a wide variety of business activities that the websites, tens of thousands of them on the internet will help you do.

Where you can make money loaning your lawn mower and power tools to neighbors, where you can buy returned goods from retailers and re-sell them on eBay. The list is virtually endless and you can take some of your down time, as you wish, to generate a few extra hundred bucks a month, which is for many people, a huge amount of money to make a big difference in their ability to save for the future.

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FT: We love that concept on the show. When you can't save more, you've got to earn more and, like you said, there are so many innovations now. It's easy to engage in a job and sometimes not even have to leave your house to do it so that's beautiful.

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RE: Exactly.

[SPONSOR BREAK]

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FT: Need a website? Why not do it yourself with Wix.com? No matter what business you're in, Wix.com has something for you. Used by more than 84 million people worldwide, Wix.com makes it easy to get your website live today. You need to get the word out about your business, it all starts with a stunning website.

With hundreds of designer made customizable templates to choose from, the drag and drop editor, there's no coding needed. You don't need to be a programmer or designer to create something beautiful. You can do it yourself with Wix.com. Wix.com empowers business owners to create their own professional websites every day.

When you're running your own business, you're bound to be busy, too busy. Too busy worrying about your budget, too busy scheduling appointments, too busy to build a website for your business and because you're too busy, it has to be easy and that's where Wix.com comes in. With Wix.com, it's easy and free. Go to Wix.com to create your own website today. The result is stunning!

[INTERVIEW CONTINUED]

[00:13:04.1]

FT: Speaking of innovation, your practice, you built it on this concept of giving people the best advice one on one. And now there are a lot of technologies out there that promise the same results, but with less overhead and lower fees. I am talking about these robo advisers. What's your take on that? Where do they fit into the mold?

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RE: There is a place for robo advisers, there always has been. We used to call them "no-load funds". Vanguard, the biggest no-load fund company on the planet with very inexpensive, almost free investments that's available to consumers. So there is a place for these kinds of things. Now they have been transferred to the internet. You've got a bunch of robo advisers providing you investment services online where you type in a bunch of information, you answer a bunch of questions and they give you a portfolio designed to reflect your objectives and your risk tolerance.

I have one as well. I created one of the first robo advisers called Edelman Online and we allow people to access all of our investment management services with no human intervention and there are lots of sites, probably 50 or 60 of them at last count, that do this kind of thing. But there is a big issue that most people are not aware off. These sites only do one thing and they only do it in one way. The one thing they do is provide investment advice. They will tell you, based on the answers to the questions you provide, what your asset allocation should look like, what investments should you own and in what mix; what percentage in stocks and what percentage in bonds and so on. They will provide investments, ETF's usually, low cost mutual funds sometimes to implement that advice but that's all that they are doing.

What they're not doing is giving you any advice other than just that. So if you have a question about your mortgage, they can't help. You need advice with insurance or taxes or real estate or your employee benefits at work or your will and trust or intergenerational family issues, credit and debt, personal privacy? They can't help you with that. So they only do one thing, that's one of the reasons that they do it inexpensively because you're getting the stripped down, bare bones level of advice and services.

The other issue, which I really have a problem with and even my online site is guilty of this, when they construct a portfolio for you, that portfolio is what we call a "risk based model". In other words, we ask you risk questions. "How do you feel about volatility? How much risk are you willing to take? How long will the money be invested?" And so on, and we give you a portfolio based on your answers to your attitude about risk. But that, we learned as a financial planning firm, is not the ideal way to help clients.

The ideal way is to help clients achieve goals. If you were trying to achieve goals, meaning, "When do you want to retire and how much money do you need at that time? When will you send your children to college? How much will college cost?" When you would attack the question from a goal based perspective, you get a better answer than a risk based perspective and all these online services, none of them deal with goals, they only deal with risk.

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FT: Well except for one. There is one.

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RE: Yeah?

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FT: It's new, it's called Ellevest and its Sallie Krawcheck's platform for women and I think that's how she is differentiating. She is saying, "We don't ask," — of course, I think risk is a part of it. It naturally has to be, but they really put the goals front and center. So they allow you to save and invest for various goals that have different timelines that, like you say, it will cost different things in the future and so it is a little bit more realistic. And I think she found that for women, that really resonates more. Because when you ask women about risk tolerance, they can answer it but it's more exciting talk about your goals.

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RE: Much more exciting and it's much more important and the real key is to correlate it all in a comprehensive way so that the investment decision you are making for say your kid's college isn't in conflict or interfering with your goals for your own retirement. So I'm glad to hear that there's finally a site that's being developed that focuses on it from a financial planning perspective, because that's the next step on the technology and where it's going to take us.

And so our attitude is real simple, if you don't feel that you need the personal relationship of an adviser, the broad based services of an adviser and you have a rather narrow situation with a very specific question, then you can turn to these online services. Simply recognize you're getting what you pay for. They are charging you a lot less, but it's because they're delivering a lot less and as long as you understand that, there's no problem with using them.

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FT: Right, you are paying for what you get. You get what you pay for.

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RE: Exactly.

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FT: And also in the book, you talk about how it's important to really find the right balance of looking at your portfolio or your investments enough but not too much where to the point where it starts to overwhelm you because we either do it too much or we do it too little. So what's the sweet spot when it comes to really having a healthy relationship with your investments?

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RE: Well, if it bothers you to look at the values, don't look. If you're an alcoholic, don't go into a bar. If you are a compulsive shopper, don't go into the mall. I mean don't do things that are putting yourself in a position to have bad outcomes. So if you are the kind of person who, whenever they look at their account statement and they see that it is down, they get upset and want to sell. Or they see that it's up and they get excited and want to buy, you should simply never look at your account statement. It's really that simple.

Which is crazy advice because in these days of personal privacy protection, we do want you to pay attention to your account and make sure that everything is going correctly and okay in this world of ramp and fraud. So you might want to rely, if you can't gauge yourself and control your own emotional reaction to what you are seeing at the moment, then you would be candidate for hiring a financial adviser whose job predominantly is to simply hold your hand. To be on the lookout of your account for you and to help give you context whenever you see the account value particularly high or particularly low from one month to the next.

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FT: There's going to be more volatility in the market this year. I don't have a crystal ball but I think we can safely predict that it is not going to be smooth sailing until the end of the year. There's likely going to be days where we want to pull our hair out. Is there any advice other than just "don't do anything"? Should there be some things that we should be doing? Not say, pull your money out of the stock market. But when we have big dips, what are some good healthy practices on that day or during that week?

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RE: First, I agree with you Farnoosh. I think with the elections, we're going to see a lot of anxiety. At the moment everybody seems to feel that they either hate both candidates or if they like one of the candidates, they're convinced their candidate will lose. And so nobody seems to be terribly happy and that will probably translate into market volatility, as people are convinced that the wrong person winning is going to destroy the stock market.

So I think you're right. I think we will see volatility. The message though is that that's really exciting news for smart investors. Volatility creates opportunity because we know that volatility is just a short term reduction in market price, which creates a price being on sale. It's a stock going on sale. So there is something you can do. Well the earlier we said, "Yeah just sit, wait it out, don't do anything because of it." But there is one healthy thing you can do and it's called rebalancing.

Let's make a simple example, let's say of two assets equally on 50-50. If one of them suddenly falls in value, you're now 60-40 because one has fallen less than the other one. Well that's an opportunity to rebalance. You sell some of the 60 to buy some of the 40 bringing it back to 50-50. In other words you are selling one asset that's made money or higher in value to purchase another asset at the moment is temporarily low in value.

This is called buying low, selling high, the exact opposite of the nonsense people engage in. I joke about it in my book, most people sell high buy low, which is the opposite of what you're supposed to do. So rebalancing can really help you capitalize on short term volatility that I agree with you is likely to occur between now and the end of the year.

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FT: At your firm, is there some predicting going on as far as what the election year end and also 2017 holds for us? What do your projection models say?

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RE: I'll take it a little beyond '17 and cover the entire next four year term of the next president. We have done substantial levels of research. I in fact talk about it in my prior book, *The Truth about Retirement Plans and IRA's*, all the way back to 1945 and we have found that whoever is president, whichever party is in the White House is largely irrelevant. Presidents have a remarkably narrow impact on the financial markets.

They have an incredible amount of power and influence in an awful lot of areas but not when it comes to making stock prices go one way versus the other and more to the point, regardless of who's in power and not just talking about the White House but also both houses of congress, there are only eight combinations of democrats and republicans and control of the house, the senate, and the White House.

And when you look at all eight combinations since 1945 you discover that it really doesn't matter all that much. That the stock markets do well regardless of who's in power. The history also tells us that generally a democrat in the White House does better than a republican in the White House, but both do sufficiently good that you won't really be upset no matter who wins from an investment perspective.

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FT: I did read something today though, and I don't remember the point of the story but it was something along the lines of that. Leading up to an election depending on where the stock market sways, if we have an up market, a bear market or a bull market that that usually means one particular party or another. Have you heard about that? That even before we have a president, we can usually tell what the party winner will be based on whether it's a bull or bear market?

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RE: There are lots of singular indicators along those lines, they are often difficult to rely on because circumstances vary. One thing that's unique about these election is that this election is a occurring in the seventh year of a bull market. That's never happened before and so will the next president be blamed for ruining the bull market or will they be given credit for extending it?

And our attitude is, whoever's elected president will not have any significant impact long term on this outcome. But we are very comfortable that four years from now, eight years from now, 12 years now, prices will be higher than they are today, and that's what really matters.

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FT: But at the same time, no the president, whoever becomes president won't be the one who determines the direction of the market but the media will make it seem like there's a correlation.

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RE: Yes.

[00:24:35.6]

FT: And of course, the politicians will make it seem like there's a correlation. How do investors, individual investors sift through all the noise online and on television and make educated decisions? Who can we trust? Should we just stop watching CNBC?

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RE: Pretty much, yeah. Or watch it for its entertainment value and its current events side but don't make investment decisions based on it. You used the word correctly Farnoosh, which I never hear anybody saying so good for you. You called it "noise", and that's exactly what it is. In other words it's not information, it's not advice. It's noise. It is simply verbal styrofoam. It is not something that is designed for you to take action on because whatever noise they are giving you today is going to be different from the noise they give you tomorrow.

And so whatever you do today, you just have to do something different tomorrow and that's the crazy nonsense that the media never really explains to you. Let's also remember that members of the media and I used to be one before I became an adviser. In my prior life I was in the media and I still do that with my radio and TV shows and all my books but I am still kind of a media person like you are. There is a difference between prediction and education. All the experts agree on everything from an educational perspective. For example, I know you're going to agree with this following statement, when interest rates go up, bond prices go down, right? You agree with that.

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FT: Right.

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RE: Because it's a fact. Every expert agrees when interest rates go up, bond prices go down. That's education. Predictions are different. Predictions are where one expert predicts whether the interest rates are going to go up or going to go down and that's when the experts end up disagreeing because nobody knows for sure. It's like predicting the winner of the next football game or the winner of the next election or whether it's going to rain next week. Nobody knows and therefore everybody gets to act like an expert. That's noise.

So what you need to do is throw away the noise and focus on the facts. Focus on knowledge and education and once you know how bond prices react to interest rates, you can decide for yourself what bond prices are going to do next. You don't need an expert to help you. Anybody can do that.

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FT: Yeah but, you know, 24 hour cable news, you've got to fill it up with something.

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RE: You absolutely do and that's why they fill it up with lots of noise. I remember a good friend of mine who's a journalist in the financial trade press. One said to me that there are only 10 or 12 legitimate stories in personal finance. The problem is he has a weekly column. So he is forced to write even when there's nothing to write about and it's just the game that everybody has to play and so consumers need to recognize this.

These people are journalists by training. They're not financial experts and they are often saying what other people are telling them. That's what journalist do. We write down, we quote other people's comments, whether that comment is right or wrong, good or bad, dumb or smart, we write it down, we report on it and that produces a reaction from somebody else. You get trending going on and now in the world of Twitter, anybody can say anything whatever they want.

So it's noise and you can use it for entertainment, you can use it for current events, you can use it for fabulous chit chat at cocktail parties and dinner parties but please don't base your life's financial future on today's tweet.

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FT: It's very cyclical everything and I wonder if *Rescue Your Money* will be making a comeback in 2020. It could be? You probably planned that one out.

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RE: You know, I probably will have to revise it yet again, my first book, *The Truth about Money*, I have now revised four times. So I may have to revise it yet again. But for now, I can assure you the book is fully updated. It's current to today. The advice that it is offering you right now is the advice that you really need.

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FT: Ric Edelman, thank you so much. The title again is *Rescue Your Money: How to invest your money during these tumultuous times*. Thanks so much for joining us again.

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RE: My pleasure Farnoosh, thank you.

[END]