EPISODE 514

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FT: Welcome back to So Money. It is our last installment of our 2016 highlights and this has been really fun, going back and listening to some of the top interviews of the past year, talking about entrepreneurship, and health and wellness, as well as negotiating. If 2017 is going to the year that you start a business or ask for more on the job or just get healthier so that your whole life, your finances can also improve, go back and listen to our episodes starting from last Monday.

We've worked hard to curate these episodes to bring out some of the best advice that has been shared on this show over the last year and today, we're going to stick to the theme of investing. We've talked a lot about investing on the show. Our motto here is "boring is better". Don't try to game the system or beat the market. It's better to just focus on the investments that are going to over the long run yield a positive return and along the way won't cost you a lot to invest. Low fees is really the key.

So many of you write in to Ask Farnoosh about investing, how to do it and just even where to get started. It's a topic that a lot our guests, when I ask the question "what's one thing you wish you knew about money growing up", say they wish they knew more about investing. I've had guests on the show this year try to break it down for us in a way that's digestible and easy to understand.

The first episode we're going to revisit is with JL Collins, episode 433, remember him? He wrote a book *The Simple Path to Wealth*. He started a blog that was comprised of financial advice that he was actually writing for his daughter. It got so popular that other people started following him and turned into a great community and now a book. He has some really important advice about the simplest thing you can do when it comes to investing. The simplest. Take a listen.

[EXCERPT]

[0:02:21.4]

FT: As you're speaking, I'm on your website and I'm looking at your stock series and it is — I'm looking forward to diving further into this. I think that there's a lot of mixed messages out there about how to invest. What's your philosophy? What's your overarching philosophy on investing, and you said you've been investing since 1975?

[0:02:41.2]

JC: Right. I have, and that philosophy has changed over the years and the core of it and the core of the book that I have out now, the new book I have out, which is *The Simple Path to Wealth,* is that the most powerful thing that you can do investing is also the most simple and it's what do you have to pay the least attention to, and that's simply index investing. If you buy the total stock market index fund, and I like Vanguard's, which is VTSAX.

That's the most powerful wealth building tool that's short of putting your own sweat equity into it, in something like real estate or building your own business, but it's a pure investment. That's the most powerful wealth building tool that you can invest in. It's also the lowest cost and requires the least effort. I say to my daughter, and by extension to my blog and now my book readership, when you are working and you are saving money that you're then investing, that cash flow smooth's the volatility of stocks. Because stocks, while they're very powerful in terms of building wealth, it's also a wild ride.

So you want to have something that smooth's that ride and when you're working, you are in the wealth accumulation phase, as I put it, and that ongoing flow of money from your earned income is what smooth's the volatility of stocks and actually makes it about so they work for you because when the stocks plunge, as in the market you can be guaranteed periodically will plunge and nobody can predict that, your continued investment that takes advantage of that. So for my daughter who is in her mid-20's now I just say, "You want to buy VTSAX and you want to put as much money in it as you can whenever you can and don't worry about it otherwise, just let it ride."

Now, when the time comes that your portfolio is going to be supporting you and you don't have that earned income flow to smooth the ride, you want something else to smooth the ride. And at that point I suggest you add the total bond market index fund, which is VBTLX, and bonds serve the function of smoothing the ride of stocks. What the allocation percentage will be between those two is really a function of your risk tolerance. The more stocks you have, the more powerful your growth over time will be, the wilder the ride. The more bonds you have, the slower the growth but the smoother the trajectory. Does that make sense?

[END OF EXCERPT]

[0:05:21.6]

FT: The next stop is Sallie Krawcheck. I couldn't do an episode on investing without bringing up Sallie Krawcheck. She's a Wall Street veteran. This is from episode 349. She launched Ellevest this year. It's an investment platform created for women by women, but men you can use it. I invited her on the show shortly before it launched and she is adamant that women need something very special when it comes to investing. They need a different kind of platform, a different kind of system. Take a listen.

[EXCERPT]

[0:05:50.7]

FT: Well speaking of entrepreneurship and raising money, you've reportedly raised about $10 million in funding to start Ellevest, which is a digital investment platform for women. Why did you want to do this and why do women need something catered to them? Why can't women just go to the Charles Schwab's and Prudential's and Fidelity's of the world?

[0:06:10.9]

SK: Oh, so you're going to blame the victim, I get it. Well look, I argued for a long time women didn't need any kind of offering for them, because there's so much out there. But facts are stubborn things and women today are significantly underinvested in comparison to men. That's not true in the workplace 401(k) plans. It is true outside the workplace and the numbers around this are startling and disturbing, which is that if a woman has got her money an a bank account, a guy has got his money invested in a diversified investment portfolio. That woman is ending up hundreds of thousands of dollars, in some cases millions of dollars behind the guy at the time of retirement.

The numbers are astonishing because of the compounding impact of earning let's say a 5% return annually versus 1%, or today close to zero. As a result of this, what really hit me for this, sort of the real underlying reason behind it is one day, I was putting on my mascara in my bathroom getting ready for work and realized that the retirement savings crisis in this country, which is so big and so ugly that we really stopped talking about it. And because all the solutions are so hideous, like tax increases and entitlement cuts.

As I was sitting there I realized it's a woman's crisis. It's a woman's crisis. We live five plus years longer than guys do, look at any nursing home in the country, it is 80 to 85% female and we retire with two thirds money of men. Part of that is the gender pay gap. Part of it is that we take more career breaks than men do because of maternity leaves and so on. But part of it is what I just talked about, which is the gender investing gap, which we just don't talk about in this country.

So rather than say, "Hey ladies, there are offerings out there for you, just go, invest like a man for goodness sake." Wait a minute, this is about the last industry in which we don't recognize that tailored offerings can really make sense. The other thing that really bothers me here is that this issue of women under investing gets boiled down to these dated 1957-ish messages we received that women are bad at math. Not true! We make better grades than guys do at school and as good or better in math.

That we need more financial education to invest. Well, everybody needs more financial education but the guy doesn't stop the guys from investing. Or that investing is sort of a manly man thing. Women in fact are better investors than men. As good or better. This is true in the professional level, whether it's a hedge fund manager or mutual fund manager, not that they're enough of them, and it's also very true at the individual investor level.

So we've got these messages that come at us that tell us we're sort of dopes, which just aren't true, from all sorts of media sources in the industry and so on. Now, there are tons of great financial advisers who do a great job with women but the numbers and I know most of them, if not all of them, they're fantastic but they're not enough and so we still have the gender investing gap.

And finally, I just said, "If not me, who?" If I'm not going to do it, who the heck else is going to do it? Because remember, you and I already talked about there aren't a lot of women who run Merrill, I did. There aren't a lot of women who ran Smith Barney, I did. There aren't a lot of women who've been in these positions who can understand the industry and understand that investing science, bring in the technology, and then think about the problem in a fundamentally different way because what we're doing right now isn't working.

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FT: What do you mean by "tailored offerings"? I suspect a lot of us also have to come with a dose of advocacy because what you just told me all these falseisms, these false messages can really impact your psychology and your perception of reality. So how does Ellevest, what are the offerings specifically, if you could share an example that would be to your point?

[0:10:20.1]

SK: Yeah, well so we haven't launched yet. So we're keeping it pretty under wraps. But for your listeners, they can sign up for early access at Ellevest.com. But I will give you a couple examples. Watch some of the TV shows on investing, what do they remind you of? They remind you of ESPN, they remind you of sports programming. You know, that's male.

Think about how the industry positions its success. It can be at it is about outperforming the market, doing well when a Euro outperforms the Yen. Are these conversations you're having with the women you know? And so, I sort of think about the buying of a car. A guy buys a car, he goes in, he loves to haggle and negotiate. He loves the art of a deal, he loves to know all the details about the car, right? What are the pistons, and I don't even know the words.

A woman walks in and wants a more streamlined, more straightforward experience, neither good, neither bad, just different. Right? The research is clear: just different. And it's so interesting because we have taken that thinking and we've applied it to any level, any number of different scenarios. But we just haven't taken it to investing and many of the firms out there you might say to me, "Well so and so has this newsletter for women and so and so has this."

But what I found is that so much of that boils down to the Wall Street and investing firms have really posed the question to themselves as being one of, "How can we market to woman? How can we market to women?" Not, "Wait a second, there's some changes we can make to fundamentally serve women?" And that's what we're doing.

And what's so interesting about it is it's not just my point of view, we're actually co-creating it with women who are in their 20's, 30's, 40's. Hundreds of women we've spent time with going through what works for them and so stay tuned, because I am happy to come back on and talk about what we found as soon as we're ready to share, and it's fascinating stuff.

[END OF EXCERPT]

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FT: Sallie Krawcheck actually has a book coming out this year called *Own It: The Power of Women at Work*. Can't wait for it. Stopping by the show again in 2016 was Ric Edelman episode 481. Wanted to revisit his episode because he actually has some timely advice. He wrote a book back in 2009 called *Rescue Your Money: How to Invest Your Money During These Tumultuous Times,* and boy were those scary time.

It went on to become a New York Times bestseller. He has since revised the book because now people are again concerned about the future and not knowing really where to park their cash, where to invest, how to invest. It's not as scary of a time I think as the great financial recession. But still, we're jittery. How do you handle your money today in this next era of uncertainty?

Here is Ric Edelman

[EXCERPT]

[0:13:26.7]

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?

[0:13:47.9]

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 they keep 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.

[0:14:39.3]

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.

[0:14:49.8]

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 tizzy 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.

[END OF EXCERPT]

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FT: Thanks to Ric for reminding us that it's important to remove our emotions out of making financial decisions. Always easier said than done, but we just need to remember to stay the course with our investments and someone who is very, very prolific on the topic of being rational as opposed to irrational is Dan Ariely.

He is the Professor of Psychology and Behavioral Economics at Duke University and also the author of *Predictably Irrational*. He came on the show earlier this year, episode 462. In this excerpt, he doesn't go into investing specifically but we do talk about the ways that we can change our irrational tendencies when it comes to saving and investing.

[EXCERPT]

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FT: What I love most about your work Dan is not just the research but the solutions that you give us to try to, in very practical ways, combat our irrationality. But given the pressures today of income inequality, rising cost, there's a lot of lack of education, how optimistic are you that we can really turn things around and become more fiscally responsible as a society? Do you find that there is resistance? Do you find that there are just some circumstances that makes it really difficult to practice some of your solutions?

[0:16:50.9]

DA: So first of all, thanks for having me, and I think absolutely the answer is yes. But I don't get depressed by it. So one of the things that we've realized in social science over the many, many recent years is that the environment matters and it matters more than we think.

So we usually think about people as agents of decisions and it's all about us and we decided and we act and so on, but the reality is that the environment has a lot to do with it. So imagine I came to your office every morning and I layered your desk with donuts, every morning, fresh and wonderful.

[0:17:29.9]

FT: Thank you very much. That would be delicious.

[0:17:33.9]

DA: Let's say I do it for a whole year, what do you think will be the effect on your waistline by the end of the year, and your health in general, right? So look, if we did this experiment and I exposed you to a lot of donuts every day, I'm not saying you'll be tempted every day to eat a little bit, but there'll be many, many days that you'll be tempted and the consequence will be short term pleasure and long term perhaps health issue.

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FT: Depression.

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DA: So the thing is that if I expose you to donuts, or whatever it is, you're very likely to fail. But I don't have to expose you to donuts. So once we get people to be exposed to temptation, texting and driving, overeating, under saving, not exercising, the temptation is so strong and the companies that produce temptations improve all the time.

Again, not to say anything bad about donuts, but Dunkin Donuts is just getting better and better at tempting us. That is their mission in life and Facebook is getting better and better in getting us to check Facebook more often and life is really about companies around us, almost all of them want to tempt us. They want to tempt us to use our time, money, attention in a way that works for them right now. So we fail often, so that's on the depressing side.

The good side is that we can create new tools. Now think about the world of money. Some time ago, whatever, a hundred years ago or 50 years ago, we had cash and cash is simple and also we had a rather simple life. People have defined benefit plans, we didn't live that long, donuts were not as good, we didn't have all the variety of all the things that modern life has, which is wonderful, but also tempting. As life progressed, life became more complex. All of a sudden, we figuring out the mortgage is difficult.

By the way, here's an interesting story. As long as mortgages had only one dimension, what's the interest rate? It was very easy to figure out that 3.75% is a worse interest rate than 3.5%. But then they went ahead and they added points to the mortgage process. So now you can pay an amount of money upfront and that reduces your interest rate and now people get confused because the computation is much more difficult. So think about what it means that people get confused and choose the wrong mortgages or the ones that actually don't pay, don't charge them more.

The moment you move from one dimension to two dimensions. And think about the economic environment right now. We have of course mortgages and student loans and car payments and credit card payments. We have retirement savings, we have emergency savings. We need to save for our kid's college, all of these is becoming incredibly difficult. Also because of the American tax system, we don't really know how much we get paid until April the following year. So we have created a system that is very, very complex.

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FT: That is a wrap ladies and gentlemen. Thank you so much for sticking with us through this highlights, really hope that this provided some meaningful take away for you as you reflect on 2016 and look forward to the New Year. I hope you had fun. I'll be back here on Friday for our last 2016 Ask Farnoosh episode. Excited to kick off another successful, fantastic, energetic year of interviews with you, starting on Monday in the New Year.

Have a happy and safe New Year's eve everybody, and I hope your weekend is So Money.

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