EPISODE 20

[INTRODUCTION]

[0:00:05.7] Benjamin Felix: This is the Rational Reminder Podcast. A weekly reality check on sensible investing and financial decision making for Canadians. We are hosted by me, Benjamin Felix and Cameron Passmore. This is the 20th episode of the Rational Reminder and Cameron and I, I know we have mentioned in the past episodes we are planning on playing around with the format of the show a little bit.

[0:00:26.8] Cameron Passmore: I think this time the format kind of played around with us.

[0:00:29.5] BF: Yeah, we got a little crazy just in terms of we were very unstructured and we said in the beginning of the episode that we're going to focus on one topic which is pricing and fees and how much you should pay for advice. We talked about it and it was definitely part of the whole show but I don't know, it wasn't that explicit.

[0:00:48.6] CP: We had to get some neat things that have been happening in our world on the show, like your experience on Twitter and an event you went to last week. I think it all tied in but it might be a little bit messier than we had hoped for.

[0:00:59.3] BF: Just do your best to keep in mind that we're trying to talk about pricing and fees, even though that's not all we talk about but that's what we were thinking about when we recorded the episode.

[0:01:08.0] CP: It's genuine and it's out there. Yup.

[0:01:11.1] BF: We hope you enjoy and here's the episode.

[EPISODE]

[0:01:19.4] BF: Welcome to Episode 20 of the Rational Reminder Podcast. We told you a while ago that our plan was to change the format of the episodes a little bit.

[0:01:28.4] CP: But change is hard. We're working on it. Since we announced that change in format, we had a bunch of interviews. We had three interviews, which have been largely the same as the previous format because they're just interviews.

[0:01:42.1] CP: But the interviews were great. We had some fantastic people with Mark and Dan and then last week, Shane just killed it.

[0:01:48.2] BF: Shane did kill it and for him to be featured pretty prominently in the New York Times, what, the week after he did an interview.

[0:01:56.2] CP: Yeah, he was in the New York Times yesterday I believe so less than a week after our interview.

[0:02:01.2] BF: Yeah, that was pretty cool.

[0:02:02.7] CP: Had to make sure we put that on the show notes for sure.

[0:02:05.1] BF: Yeah, pretty amazing of Shane to give us the time based on where he's at in his career and the type of people that he's working with. Very gracious of him to do that.

[0:02:14.7] CP: Especially, the article talked about the impact he's having on wall street which I think he was quite surprised by the impact he's having. Just in the world of speed and technology and IA, it's amazing.

[0:02:26.2] BF: Yeah, it says in the article that the information's there, everybody has that, what do you do with it? That's where Shane's thinking models come in to play and become extremely important. If you want to be better than the next guy.

[0:02:39.3] CP: Right, better than AI, not IA.

[0:02:42.0] BF: Yeah, better than AI, that's right. Today, we are going to try and roll out this new format that we plan for and the idea, if you remember from when we kind of announced it is that we want to focus more on one topic. Now, we're not going to do that perfectly today because we do have a couple of things that we want to talk about before we jump into it. The meat of the episode will be one thing and that thing that we want to talk about is the cost of financial advice.

Should you pay for it, should you pay for advice, how should you pay for it, how much should you pay for it so we're going to chat about all those things but before we get into that, we did want to talk a little bit about a couple of things. One of those is performance.

[0:03:25.5] CP: And the question we get at virtually every meeting, some variance of aren't the markets kind of high right now? Isn't it kind of choppy and why would I want to invest now.

[0:03:35.5] BF: Not anymore, right? Now it's a different conversation.

[0:03:38.6] CP: People are suffering from recently a month or so ago, they were worried about the markets. Now that the markets have gone down, they're worried even more. I find and get that question at almost every meeting.

[0:03:49.5] BF: Yeah, me too. We always brag about how we haven't had any clients call us, that kind of changed, we had a few call us in October.

[0:03:56.3] CP: Not that many.

[0:03:57.3] BF: Not many.

[0:03:58.3] CP: Some are asking.

[0:03:59.8] BF: Yeah. Even at one question that a client sent in to me by email, let me just get it here where he was basically asking, commenting that the returns over the past five years, really, nothing to brag about and that 4% which has been his five-year return is nothing to brag about.

He's got no basis for that and even though I explain to him that well, that's not an unexpected return. He said, well I basically don't really know what to expect but it just isn't what he was hoping for.

[0:04:26.8] CP: Yeah. What you hope for and what you should expect are very different things.

[0:04:30.6] BF: Right. It's a totally normal period. We looked at yeah, we looked it right? We looked at the distribution of five-year rolling returns and this past five years, even with as little dip that we had has been extremely normal.

[0:04:41.3] CP: Absolutely normal.

[0:04:42.7] BF: Yeah, he was happy and in fact, referred someone else to us, in the meantime. All is fine.

[0:04:48.4] CP: That's such, all is fine, I guess. That worked so well. I did look at the performance of just the DFA global 6040 portfolio which is something that you and I often use as a sort of benchmark of how things are going and as of the end of October, it was down just over 3.04% for the year and as of Friday, November 9th, it was down 1.79% for the year.

[0:05:13.9] BF: Big bounce back there.

[0:05:14.4] CP: Big bounce back.

[0:05:15.7] BF: Even when there was not the bounce back, when it was down 3%, I mean, how bad is that? When we look at 08/09, we're talking about 25% drop for 6040. This is in the

grand scheme of things, it sucks. People don't like to see their portfolio drop, I don't like to see my portfolio drop either.

[0:05:32.3] CP: Volatility is a price you pay for long term prosperity.

[0:05:35.5] BF: One of the other things that we want to chat about before we jump into the pricing conversation is the tweet that I had last week that kind of blew up. I said in the tweet, the important things in life that we can control and then on the list, diet, exercise, sleep, relationships and asset allocation.

I thought it was just kind of funny.

[0:05:55.8] CP: Where did it come from? You just had this idea?

[0:05:57.7] BF: I was thinking about it, I was thinking about, I guess I was thinking about my own life and just you know, the things that I try and focus on, diet, sleep, exercise, relationships, that's just my mind was wondering, what else can you do that we have control over?

Asset allocation. Then I started thinking about it, it's like, actually, you know what? It is actually really important and it is something that we can't control. I thought it was kind of funny. I tweeted it and twitter seemed to think it was quite profound, it had –

[0:06:25.6] CP: By far, your most hits ever.

[0:06:27.6] BF: In terms of tweets and things, the retweets and likes, yeah. It had 199 retweets and 698 likes as of this morning. That was from last week. It blew up, I don't know why.

[0:06:40.5] CP: We need to know why, it might have been the asset allocation, you twigged into something there perhaps. There are a bunch of list like this for example. One that I saw

this morning from James Clear, it was a new book that just came out called Atomic Habits. He has a pinned tweet, I don't know if you seen it or not.

[0:06:58.9] BF: I saw it in your notes, yeah.

[0:07:01.0] CP: Sleep eight plus hours each day, lift weights, three times a week, go for a walk each day, save at least 10% of your income, read every day, drink more water and less at everything else and leave your phone in another room while you work. I think the format is proven and you just struck a great cord there.

[0:07:21.1] BF: Yeah, it was interesting to see. As soon as I tweeted it, it started blowing up. Like I said before, I do think asset allocation is extremely important and that we're going out on a tangent, old format style I guess but one of the other things that I wanted to talk about in terms of asset allocation is with the robo advisers, one of the things that I've noticed, it's kind of a trend that I've seen just from talking to young people who are using robo advisers is that they systematically recommend conservative portfolios.

To prove that, I guess is if you can call that proof, I went and did the wealth simple questionnaire. I filled everything out, I said that I can tolerate large losses, I'm a long term investor, I've got stable income, long term goals, all these things that you'd expect to push you to be in an aggressive portfolio.

[0:08:06.9] CP: Right.

[0:08:07.3] BF: But, I filled out the questionnaire saying that I had no investment knowledge. 50% equity.

[0:08:12.9] CP: Is that the variable that brought you way down?

[0:08:15.1] BF: It's got to be it. Yeah, it is, because I did another trial where I said that I was high knowledge and then it gave me 80% equity.

[0:08:22.9] CP: 80 would be the most that it will allow you to go on equity then probably.

[0:08:25.5] BF: You can ask to go higher afterwards.

[0:08:27.8] CP: But it won't let you go there automatically.

[0:08:29.4] BF: It won't recommend it.

[0:08:31.0] CP: One of the rate, so many millennials that have never experienced a major down draft?

[0:08:34.6] BF: They're worried about two things, I think they're worried about compliance because if they go recommending super aggressive portfolios to people who may not know what they're doing, then that would be a compliance nightmare, they have a regulatory requirement to make a suitable recommendation, where knowledge is part of the suitability requirements.

If they do recommend an aggressive portfolio to a low knowledge investor, that puts them in hot water in terms of their regulatory compliance. I think the other issue and actually Shane, not in our podcast but in our conversation post recording, we talked about with Shane, the idea that index investors might panic in a downturn.

[0:09:10.9] CP: That's an interesting question.

[0:09:12.6] BF: Right. What is that population index investors like and where do they come from? Do they get there because of knowledgeable, do we get there because they're young? Did they get there because they're value minded, AKA, cheap. What is the motivating factor to get them there?

[0:09:27.4] CP: You got to think, while simple is dumping all this, and other robo advisers but while simple is the most obvious culprit, because they're dumping the most money into marketing but I'd love to know, I'd love to do a survey of well simple customers and see how many of them have any idea what they're doing.

[0:09:42.7] BF: I bet you, most went there, my guess is because of the cool interface.

[0:09:46.6] CP: Slick marketing, low fees.

[0:09:48.9] BF: High cache.

[0:09:49.6] CP: You know, you see it, if you spend any time in online groups about investing and stuff like that. People talk about how yeah, I tried well simple performance was terrible, I'm going to do something else which is that's obviously the wrong way to think about it. But if you don't' know that, then you don't know.

[0:10:06.1] BF: They're looking for kind of cool interfaced alpha, I guess.

[0:10:10.0] CP: That's a funny term.

[0:10:11.0] BF: Yes, anyway. I think that to tie it back to the S allocation conversation. I think that part of them recommending conservative portfolios is that. They're worried that people will bail on a down market, which is a fair worry but it's also a bit of a knock on their business model.

If they have thousands of customers per license adviser which we know they do and markets crash, they're not going to – we're here. People call us, we answer the phone because we have several hundred clients with how many licensed people? 10 licensed people or something like that.

[0:10:40.1] CP: I quickly saw an article this morning from about the – from the UK about a robo adviser in the UK. I forget which one. Talking about how they're a great pool of prospects for high service advisers. People will be looking for service. That was kind of interesting.

[0:10:56.1] BF: It is interesting. You know what actually, we said that this was off topic for our main discussion but this is tying right in to the whole pricing conversation. Wells is charging 40 basis points on accounts over hundred thousand dollars but you don't get a relationship, you don't' get advice and you know what? If you're paying 40 basis points, but you're in a portfolio that's far too conservative for you because that's all they can handle with the way that they're able to service their clients.

Your implied cost, that adds what? Between 50/50 and 100% equity, that's 1.25% in expected returns.

[0:11:28.6] CP: 125 basis points of expected return. This is the argument that's being made online, there's a bit of a bun fight going on between Rick Ferry and Eric Nelson and others. About this exact point. What is that value that he divides to provide and what would someone be willing to pay for it. On one side, they basically have the argument that says, you should be charging clients kind of on a professional basis.

Kind of like an hourly type basis or menu type basis. The asset management is one thing, value added services are separate. On the other side, Eric Nelson's arguably need a good adviser to keep you in your seat and to get you exposure to the higher expected returns that the factors have. You kind of waited in this, pretty active on Twitter this week.

[0:12:14.1] BF: Yeah, I think that Rick Ferry's model. I asked him on Twitter within that thread, I asked him what his ideal fee model would look like. I've heard this before from even clients and prospects of PWL who have been asking about how we charge for services and Rick's idea is it should be a low baseline fee, he said 25 basis points for asset management. You charge that to manage the assets and it would be tiered. 25 basis points and declining, he never replied to my question of when it would decline or if there would be a cap, I'd be curious to know.

Well, we've got Rick on the podcast in what? January? We can ask him then.

[0:12:51.1] CP: Yes.

[0:12:52.2] BF: He thinks he should charge a low percentage of assets fee for asset management and then everything else should be Ala carte. You want to plan, you pay whatever $20,000 for the plan. You want to cash flow analysis, you pay separately for that too. You get to pick and choose. I know from listening to the Michael Kit's podcast, there are lots of advisers doing this and they're even softwares being built to allow clients to easily, you know, you're booking your meeting with your adviser.

You go and select which services you want to pay for. You're talking about this last week and I think it puts it on the client to know what they need and when they need it.

[0:13:29.1] CP: Otherwise, you're perceived as selling them, upselling services all the time. We know, from our clients that work with other professionals that charge by the hour, everytime that they reach out to them, they often say, my gosh, the meter's running again and they don't like that meter. Even though we may be more expensive than the other professionals, in totality, it's a different kind of relationship for sure.

[0:13:49.7] BF: What's better? I mean, what does a client have better experience with if they're paying ala carte, that's probably cheaper, maybe, depending on what you need, I guess. It makes a pricing more customized because you actually explicitly pay for exactly what you need as supposed to paying for access to whatever you need, whenever you want it, even if you don't need it.

It is an interesting model but what does it do to actual service delivery, I'm skeptical that the outcome would be positive on net. For both the client and the adviser. Because like you said, it puts us in a position where we're selling. Okay, well we need to update your plan, the client's

like – well, you know, "I don't really know if I want to, it's going to be a thousand dollars, that's tough."

[0:14:29.5] CP: Plus if – they sound arrogant but we believe we are the securest resource and you kind of saw this at an event you went to last week, there's not many people that share our view on the fact that Marcus work, cost do matter, global diversification, index funds tilted towards factors, there's not a lot of us in town that have that belief system and have an enterprise with properly trained people, full service and back up interview roles. That's important to you as a consumer.

There aren't many options to go to so in a normal marketplace, that would command a premium price. We try to price ourselves, not necessarily as a premium compared to our peers.

[0:15:08.6] BF: We don't, we know we don't because we participate in a benchmarking survey every year that puts us at the lower end. We know we're not judging a premium.

[0:15:15.4] CP: Correct.

[0:15:16.0] BF: You could even argue that we're charging, you could argue and I'm not saying that we're going to raise our fees, but you could argue that we're charging too little.

[0:15:22.8] CP: Right, we have had some people say that they wonder if we are charging enough to make sure we can deliver the service at their demand in going forward.

[0:15:30.7] BF: Yeah, Ben Carlson, this seems to be, for whatever reason, it's funny how topics kind of bubble up to the surface and become something everyone's discussing. But the Ben Carlson on the wealth of common-sense blog, here of it, last week too, he quoted a book called Selling the Invisible by Harry Beckwith and he quotes from the book, "if no one complains about your price, it's too low, if almost everyone complains, it's too high."

If no price resistance is too low and 100% is too high, how much resistance is just right and Carlson again quotes back with saying that "somewhere between 15 and 20% pushback. So 15 to 20% of customers should be pushing back on your pricing if you are on the right territory through pricing." I say we get less pushback than that.

[0:16:17.1] CP: Much less.

[0:16:17.9] BF: Well I think since we are talking about this I think we should probably say what our fees are otherwise people have no frame of reference to know what we are talking about but we do a tiered fee structure at our team here at PWL with the first tier starting at 1% on the first half million and the next tier 0.76% on the second half million and that above a million dropping again to 0.62% and then there is another drop of 5 million and a couple more drops as we get higher up in the assets.

[0:16:45.6] CP: Right and that is separate from any embedded MER's and the investments or user course.

[0:16:50.7] BF: That is the fee for our advice and service only.

[0:16:53.4] CP: So, talk about the event you went to last week and I thought that was pretty comical. You are really active on Twitter even that event talking about at least the food was good or something.

[0:17:03.2] BF: I said that there were three providers. I don't see any value in naming the companies but three traditional mutual fund active managers who have gone into the ETF space and they had three representatives up there. You know VP of sales type guys who were talking about why it is a necessity to have active management in your fixed income in a rising rate environment, a necessity. You need it whether you're using your passive funds actively.

So actively trading passive bond ETF's or investing in actively managed bond ETF's in either case you need to have active management otherwise you are toast.

[0:17:38.4] CP: And of course, they have the evidence to back this up.

[0:17:40.6] BF: Did not mention the evidence obviously because if they did, their service offering starts to look pretty terrible.

[0:17:46.9] CP: So they didn't have 40 years of data to show that it was a skill and not luck.

[0:17:50.5] BF: No and they did not talk about the speed reports from the US that showed the underperformance of fixed income, active fixed income funds on average. Yeah, no none of that was part of the conversation.

[0:17:59.5] CP: Okay SPIVA?

[0:18:00.1] BF: I don't actually know what SPIVA stands for.

[0:18:02.3] CP: Standard Importers Index Versus Active that's right, yeah so, those reports that comes out every six months since I have been looking at them which has got to be 15 years I would guess. It always comes out that passive chances active all the time.

[0:18:19.2] BF: It's always the same.

[0:18:19.3] CP: It is all the same it never changes but they are selling what people want to believe. It's a stock pickers market and you've got to active unfortunately there is never evidence to back it up.

[0:18:28.8] BF: One of the things that you talked about earlier Cameron was the idea that we chatted with Shane about that indexes might bail and harm themselves if market stank and I think in the case of well simple type situations where people genuinely have no idea what they are doing and all they see is the negative number in their account.

[0:18:47.9] CP: Possibly don't know what they are doing.

[0:18:49.4] BF: Well yeah, right. Yeah did I say everyone know what it is? Oh excuse me.

[0:18:53.2] CP: Yeah, they may or may not.

[0:18:55.2] BF: Yeah for sure. I am sure there are lots of educated people, financially educated people using well simple as well and I bet and I am just speculating here but I bet most people just because of the way they've done their marketing, most people are relatively low knowledge but anyway that is not the point I am trying to make here. Flows, so in your notes you had the question of I wonder how indexes will react.

Now I have access to morning star direct so I can answer the question pretty quickly which was kind of fun. I did that right before the show, right before we started recording. It flows into US passive mutual funds and I use mutual funds as oppose to ETF's just because going – the further you start to get back the smaller ETF's were. So, in 2008 active mutual funds in the US passive had positive end flows. Active had negative.

Since I have data available going back to 1993 passive mutual funds in the US have that positive net inflows every year from 1993 through 2017. Activists had three years of net outflows.

[0:19:51.5] CP: Wow.

[0:19:52.3] BF: So, our passive investors is going to bail if we are going and now we have to know who were the passive investors in 2008 because I think that is more – it is more about that. It is not about how are they investing. It is about who are the investors. Like maybe there are more DIY active fund holders back then and maybe more of the passive assets were institutional or advised. I don't know and that is the question.

[0:20:14.0] CP: So, what you're suggesting as a whole they're pretty patient structured strategy based typed people that fall in the strategy though.

[0:20:20.8] BF: Historically that has been –

[0:20:22.8] CP: The market's ups and downs.

[0:20:23.7] BF: Yeah, the real conversation is what we're just saying it is who are they, who were the passive investors and who are they now that's what it's about. Does indexing mean you are at greater risk of bailing at the bottom? I would say no even if you know nothing because just based on absolute returns indexing typically does better than active in bare markets as well.

[0:20:45.4] CP: I've got to believe that. When you look at the date in the US and I saw an article this morning that suggests that 76% of all ETF flows are going into Vanguard and Block Rock. They are just mopping up now is less and last shoot, they are getting less market share but still there is a lion share of the market share. I would expect that there is a lot of smart people in that bunch too. It is a pretty good sub setting investors would be my guess.

I think it would be pretty sophisticated people on average so I am not sure that would be necessarily big bail out if the market is really correct like they did in 2008.

[0:21:14.9] BF: Tough to know and if people do bail like I was saying I don't think it will be because they're indexers. That is not going to drive people to pull out of the market. Anyway you know what? That ties in – well that is the whole conversation we are having but people who have someone to talk to when markets are crashing maybe they are less likely to bail, maybe. I don't have data to support that but I would say anecdotally and just from common sense, it would make sense that someone has someone who they trust to call to say should I bail they're probably less likely to bail.

Than someone that has no one to talk to and as part of the fee discussion that should you be paying for advice and how and how much, one of the other ways that people can pay for advice now is becoming more and more prolific is fee only. So you can go and pay someone an hourly fee for advice. Now in most cases, the people giving hourly advice like that are not licensed. They are in most cases and there now some are but in most cases they're not CFA charter holders.

They are not portfolio managers. So, can you go and get financial advice. Now we had Rob, Rob Angin on that podcast a while back and he does it. He does fee only climbing. Rob is a self-taught now this is not a knock against Rob at all, he is a self-taught financial person. He is not a portfolio manager. He is working toward the CFP, can he give good financial advice? Absolutely, without question. Can he give comprehensive portfolio advice? Well I guess not legally because he is no licensed.

Yeah, so when you are getting that type of advice from people who are maybe personal finance experts but not portfolio management experts, I think it changes the dynamic a lot in terms of trust because yes, they can help you budget. Yes, they can help you figure out where to allocate savings and how much. When markets are crashing are they the trusted experts that's going to keep you invested. I don't know.

[0:23:05.6] CP: I don't know.

[0:23:06.1] BF: I don't know. I know for me and this is very anecdotal but the relationships that I have with clients and I think it is the same thing for you, they trust us completely and we're as much as we can, putting out thought leadership on portfolio management investing. So, do people trust us on that topic specifically? Yes, do they get financial planning advice from us as well? Yes. Now this doesn't mean everyone needs to pay for our service like a lot of people don't. A lot of people are happy to.

[0:23:34.2] CP: I listened to a podcast yesterday with Daniel Crosby wrote a new book on behavioral finance. He is also a financial adviser somewhere on the east coast. It could be

Georgia, somewhere down there and he was arguing that yes you could go do it yourself. Yes you could save money for sure but he says the profile of someone who would do it on their own has over confidence and over confidence in investing and that is what Shane talked about last week.

It is very dangerous so he thinks those that will do it on their own are more likely to make bad decisions than those who do work with an adviser just on that one characteristic alone which I thought was really interesting.

[0:24:16.0] BF: Well you remember what Shane said, I asked him what are the biases that are most harmful to investors, do you remember what the answer was? Overconfidence and the bias for action and exactly what you just said from what Crosby was saying, people who are DIY investors probably have both of those things.

[0:24:32.4] CP: Yeah and the appeal of people that are willing to say they screwed up.

[0:24:35.1] BF: I think one of the other things that we see with people who go the DIY route is that it becomes that much easier to buy individual stocks. All of a sudden you are buying ETF's you are comfortable trading, you've got your quest trade account or whatever account you are using and you decide you want to buy Amazon or Google or whatever because I don't know. I don't know why people decide to do that but they do.

I was doing some research for an upcoming video on the YouTube series on what is the risk of picking individual stocks actually look like. Have you seen this data?

[0:25:07.1] CP: No.

[0:25:07.7] BF: I found two different papers. One of them was more recent, it was 2018 paper but it showed that of the 26,000 stocks that have appeared in the CRISP database that is the Center for Research in Security Prices out of the University of Chicago. I should probably drill

into what that is for a second, it is a comprehensive database of all stocks in the US. So it should capture everything and there I a lot of work that goes into making sure that it does.

[0:25:33.2] CP: With no survivorship bias.

[0:25:34.9] BF: Correct everything is in there whether it disappears at some point or not. So yeah within the 26,000 common stock that have been in that database yes, many of them have disappeared and that is part of what this data talks about. So of the 26,000 only 42.6% of them have a lifetime buy in whole return that is greater than T-Bells over the same time period.

[0:25:54.5] CP: Wow.

[0:25:55.9] BF: Yeah and it gets even crazier, 4% of the stocks in that same dataset of the 26,000, 4% are responsible for all of the net positive return of the US market going back to 1926. The other 96% have returned on average T-Bell rate. So you take out the top 4% that's it. So how risky is picking stocks? Well you've got a very low probability of catching the ones that are driving most of the market return.

[0:26:22.5] CP: And they are not more funds or ETF's than there are stocks available in the world. So all of these active people fighting over these values to try to beat the market have to pay from this small subset and there is $400 billion a day of equity trade value and someone is going to be able to pick which ones are the winners out of that. So that data wasn't part of your seminar last week that luncheon?

[0:26:48.1] BF: No, the active ETF providers did not talk about this paper, probably would not have helped their sales and I think it is worth talking about one other paper that I found during this research. So, there is one from JP Morgan from 2014, it looked at data not going back to 1926. We only had 1980 to 2014 in this paper but answering a similar question. So looking at the Russell 3000, they took the 13,000 stocks that at some point in time between 1980 and 2014.

The 13,000 stocks that at some point were included in the Russell 3000 and they looked at how many of those stocks, so individual stocks within basically the US market. Russell 3000 is another US index not as comprehensive as the CRISP but still it is like 98% of the market cap. So of the 13,000 that made at least set up your end in the Russell 3000, between 1980 to 2014 40% of them suffered at some point a 70% loss that they did not recover from.

40% of stocks that were at some point in the Russell 3000 index. Now their definition of did not recover from was at the total loss over the long term was at least 60%. So, 40% of the stocks in the US basically the US market from 1980 through 2014 you had a pretty good chance of picking a stock that would have declined by 70% and that best recovered to a total loss of 60%.

[0:28:08.4] CP: Unbelievable and we looked at data for a long time. I have never heard of data points like this.

[0:28:13.5] BF: Oh it's cool research and yeah, I was surprised actually these papers were so recent because it seems like stuff that people looked for a long time ago.

[0:28:21.3] CP: So the key takeaway, diversify like crazy, get the expect return of the overall market, globally diversify, keep fees low, tilt towards the part of the market of higher expect of return.

[0:28:32.7] BF: That is the take away for that absolutely.

[0:28:34.6] CP: Same message we had been giving for years.

[0:28:37.1] BF: And this ties back to our whole conversation about advice and what is advice worth and all of that kind of stuff.

[0:28:41.6] CP: What is it worth? Is that worth an hourly rate or is that worth a total fee rate? I guess it is up to the consumer.

[0:28:46.9] BF: It is up to the consumer.

[0:28:48.1] CP: The example is given to me last week is cars. Some people drive expensive cars, some people don't. All of these cars go to the same place, most of them get to the same speed but if you have a different taste in which one you want to pay for that is your choice.

[0:29:01.4] BF: Do you even think about what will the market bare? And I had a blog post about this a couple of weeks ago and the difference between scaling product and advice. Vanguard can manage another billion of assets without flinching but for us to manage another billion of assets we have to bring on people and those people have to be able to deal with clients in a way that makes clients comfortable and they have to have the knowledge and all of those different things.

And if you as the partner here decided, "Well I am going to cut our fees in half and therefore Ben your salary is cutting in half as well" I could probably leave and find another job somewhere else with a firm that hasn't cut their fees in half that is paying what I am making now. So as long as people are willing to pay for great advice, I just don't see how prices can fall and you have firms like Vanguard trying to do it. Trying to charge what did say?

They said that their plan is to charge index fund level fees for advice. I believe that but what type of advice are you getting and from who?

[0:29:59.3] CP: And are they accessible? We know we're very accessible. We don't have competitively speaking high client count for advisers so we know we've got great turnaround time.

[0:30:07.5] BF: Yeah, anyway we are getting a bit long in the tooth in the episode here but I do want to finish just by saying that I am not saying everyone should have a financial adviser and should pay for advice. I think that our stance has always been and I mean our line with Canadian Couch Potatoes speaks to this, if you can do it yourself well you should. I mean like

anything, if I could fix my car I would do that myself too and I am not going to take the time to learn how.

For a lot of people, I think it becomes a hobby and something that they are genuinely interested in. If you can do that and do this successfully and spend as much time as we do reading and researching fantastic. I am not saying everyone else should have advice and a lot of people with simple situations something like well simple is fine but I think for a lot of people and we see this every day, a lot of people do want advice and are perfectly happy to pay the kind of fees that we talked about earlier.

[0:30:58.7] CP: Big show next week.

[0:31:00.0] BF: What's next week?

[0:31:00.8] CP: Don't we have a special guest next week?

[0:31:02.4] BF: I don't remember.

[0:31:03.0] CP: You don't remember.

[0:31:04.0] BF: Who is our guest next week?

[0:31:05.1] CP: From Globe and Mail.

[0:31:05.8] BF: Oh Carrick, yeah that is going to be awesome.

[0:31:07.8] CP: Rob Carrick is next week I believe.

[0:31:09.6] BF: Rob if you are listening, I am very excited. It's just Cameron caught me off guard there. Yeah that's going to be a good show.

[0:31:15.5] CP: And we have a lot of great guests lined up the next couple of months so it should be good.

[0:31:19.7] BF: All right.

[0:31:20.1] CP: Thanks for listening.

[0:31:21.0] BF: That's it.

[END]

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