EPISODE 21

[INTRODUCTION]

[0:00:06.2] 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.

[0:00:16.0] Cameron Passmore: This week we were going to have Rob Carrick on but he had to defer to another date, which is fine, we'll have him back here another day soon.

[0:00:20.8] BF: Yup, would have been good to talk to Rob, but we still chatted about one of his articles so it's almost like he was here, sort of. We had lots of other things to talk about. The biggest topic at least in our minds today was this discussion on renting versus buying, how to pay for housing. But we talk about lots of other stuff too.

[0:00:35.9] CP: Interesting conversation for sure.

[0:00:37.2] BF: One of the things we wanted to ask is we're getting around 400 downloads per episode now on the podcast which is pretty cool, we've only got on the Canadian iTunes anyway, 35 ratings for the show, so if you're listening and you're enjoying the show, it would be great if you went ahead and gave us a rating.

[0:00:52.8] CP: Would love any feedback or questions you might have.

[0:00:54.8] BF: That's it, we'll start the episode.

[0:00:57.2] CP: Have a listen.

[EPISODE]

[0:01:08.6] BF: I took the kids sledding this weekend for the first time ever which was kind of fun.

[0:01:13.1] CP: You're going to somehow tie this in to the recent market slide I suspect?

[0:01:17.5] BF: Slide, that's a good way to tie it in. No, I was not going to do that, I was just saying it.

[0:01:21.4] CP: Did they enjoy the ride?

[0:01:22.4] BF: They did, all the way down to the bottom, that's terrible, this is a bad joke, let's stop.

[0:01:27.4] CP: Lots in the news this week. I know you wanted to talk about the Investors Group announcement, that came across the wire last week.

[0:01:33.0] BF: Well, it kind of ties into our discussion from last week where we're talking about pricing. Investors Group who has been forever the leader in the high fee mutual fund commission based space.

[0:01:43.8] CP: High fee, high service. I think it's fair to say.

[0:01:45.4] BF: That is fair to say, that's very true. They do pride themselves on good service. They're rolling out unbundled fees for everybody, for all their clients.

[0:01:53.7] CP: Yeah, starting with over a million dollars and up. Said they're going to half a million. In first quarter of next year I think. It's going to be rolled across the whole platform I believe.

[0:02:01.7] BF: Which is good.

[0:02:03.9] CP: Because advisors won't be paid by the product per se, be paid directly by the client.

[0:02:08.7] BF: Which is a good thing. Because you're now the advisers no longer tied to selling certain products to earn the commission. In terms of what that's going to do for the clients, presumably there will still be a bias towards Investors Group products somehow, I don't know how but I don't see why Investors Group as a firm would stop incentivizing in some way or at least praising using their own products.

[0:02:28.6] CP: Not a huge difference in total cost I don't think. Initially anyways, they're talking about what? Three basis points or .03%? Expected fallen fees but perhaps once it becomes clearer, they might have more pressure to reduce the fees, that is what will be interesting.

[0:02:43.1] BF: Yeah, it's a good point. How good is the high service when you see how much you're actually paying for it?

[0:02:47.3] CP: Right. Because they are, it's safe to say, they are at the high end of the cost range I think for service providers.

[0:02:52.4] BF: Well yeah, if we look at their fun fees, their fund fees are high and if they're only dropping by three basis points, I would say that's not a hugely beneficial change for their end clients but taking away the commissions is a huge step in the right direction.

[0:03:04.5] CP: For sure. Markets are down a bit today.

[0:03:06.7] BF: Yup, they've been down in November. Well, they've been down for the year in most cases. I was looking at the numbers earlier as of today, the 19th. Canada has been pretty flat, US is down for the month. Canada's been flat for the month. US is down another 130 bases points. So far in November, that puts the US market in US dollar terms, measured by the SMP 500 down in a negative territory slightly but still up 5% for Canadian investor holding an unhedged exposure to the S&P 500.

[0:03:38.9] CP: Yeah, you made up what, about 5% I think on the –

[0:03:41.7] BF: That's the currency, yeah.

[0:03:43.1] CP: The currency loan.

[0:03:44.1] BF: You're still up on US as a Canadian if you're not unhedged but about 5%.

[0:03:49.3] CP: Right.

[0:03:50.3] BF: And international, again in Canadian dollars is down almost 8% for the year as that November 19th.

[0:03:56.9] CP: I think the currency internationally is pretty flat. Maybe we're slightly stronger I believe, compared to the international base of currencies.

[0:04:03.0] BF: Yup, pretty ugly. Then DFA 60/40 which we always like to refer back to is down 2.55% for the year.

[0:04:10.0] CP: Yeah, is that ugly or not? I think back to 2008 and this is kind of like a Thursday back in 2008 as supposed to for a whole year. I personally don't see it as being too ugly and it's all about expectations. If you know the potential outcomes going in and know that this can happen and likely will happen. You should be okay.

The problem is a lot of people I don't think know what to expect. And they often look to people like us to prevent them from that happening.

[0:04:36.8] BF: Yeah, I mean, 60/40 was down for the worst 12 months of the financial crisis was down 25%. This is a fraction of that but I don't think people are panicking. I think people are maybe feeling a little, maybe a little stressed or a little sad that markets are down but I don't think people are panicking.

[0:04:53.0] CP: No, I don't think so at all. Especially if you know, you have a strategy in place, it's taken advantage of this will automatically rebalancing, I wouldn't worry too much about it.

[0:05:00.8] BF: That kind of ties in the other thing that I wanted – or one of the other things that I wanted to talk about which is the conversation from last week about the client that was concerned about their five year returns and we looked at the distribution of returns and show it was normal and all that stuff.

I started thinking about okay, we have one bad month and all of a sudden, the five year return looks terrible. People might get upset about that. If you started evaluating returns, at a given point in time, it's highly dependent on the month that you start with and the most recent month.

[0:05:29.4] CP: Absolutely.

[0:05:30.2] BF: It changes hugely.

[0:05:31.7] CP: Because in October, we picked up a bad month, we may have dropped the month that looking back five years ago, if it was a great month, that's now falling off. A higher starting point.

[0:05:41.0] BF: Exactly. It's really – I mean, it's essentially useless to look at your five, 10 or even 20 year returns. I've started looking at the data around that for what was I looking at? I think I was looking at Canadian stocks. No, I was looking at the global equity portfolio and I looked at going back to 1994, the 20 years ending September 2018.

The five-year return was 9.68% and 10 year was 8.86. 20 year was 8.85. You know, kind of great returns. 9.68% per year for five years, 8.87 for 10, those are great returns and then we have one bad month in October so if I shift it over from September, the period, ending September 2018 to the period ending on October 2018 which was negative 6.85% for that month of October. All of a sudden, the trailing five year drops from 9.68 to 7.18, the 10 year actually increased and this speaks to the point of where was your starting point.

It actually increased from 8.87% to 9.98% per year for 10 years just by shifting forward one month and then the 20 year dropped from 7 point or from 8.45 to 7.68. I mean, huge changes, right? It's an example of if you're evaluating your returns, at a given point in time, it's almost completely meaningless.

[0:07:04.6] CP: I looked at one this morning so someone had a five year return and their goal equity portfolio, this is real person, real money, their five year return on January first of this year was 12.4%, per year for five years. The five year return at the end of October is 8.44%. The five year compound return reach about 4% per year just in the past that's 10 months. Just something to keep in mind.

In the end, you have to believe in capitalism, you have to believe that there will be positive expected returns and you have to know that this will happen. It's unfortunate we all get mailed our statements every month or email them and people are more connected to this as supposed to their house which no one ever looks, actually devalue their house or a lot of other different assets. That's just the world we live in.

[0:07:47.7] BF: The only thing that you really have to worry about is the statistical reliability of the strategy. Whether that's investing in index funds, the statistic reliability of stocks outperforming bonds over the long term, does that change if you have a bad 10 year period? No, it doesn't. It's the exact same story for size, so small caps beating large cap stocks over the long term.

Value, profitability, all the well-known factors that had been established with data but also with backed up by theory, it's like, does evaluating a performance matter, does it matter if small caps have underperformed for 10 years? No. The factor is still statistically reliable and that's the only thing that you can base decisions on.

[0:08:25.5] CP: But most people don't appreciate that so 10 years. Telling someone 10 years is not a statistically reliable data set. 10 years to wait for small cap premium is a long time. You talk to academics and to them, it is not a long time.

[0:08:38.7] BF: Exactly, that's what Ken French would talk about the beige way of thinking which is basically taking – if you take your prior belief for you to change that, a strong part of belief which we have for stocks outperforming bonds and size and value and all those different factors, we have a strong factors. We have a strong prior. To change your prior it takes what Ken French would say, an overwhelming amount of data. Which 10 years is not.

[0:09:03.1] CP: That's what makes you wonder, right? If someone decided to bail on this kind of strategy, why set of data will you use to decide where you're going to go to. Some great storyteller stock picking fortune teller? I don't know what you would do. Where are you going to find a more robust belief system than this one?

[0:09:19.2] BF: I agree.

[0:09:19.9] CP: It's not ours, we just implement it.

[0:09:21.5] BF: Yeah, that's a question that I wrote down in my notes. What else are you going to do? If you decide, okay, it's been a bad 10 years for this statistically reliable way of investing that I'm doing now. Even forget about size and value, just say it's for index funds? Although I guess, it's more interesting with the factors because they're different from the market. Let's use factors. Let's say small caps, 10 years where small caps underperform but it's still statistically reliable evidence and the theory –

[0:09:43.5] CP: What do you do, just do it on beliefs?

[0:09:45.2] BF: That's right, what else do you do?

[0:09:46.2] CP: The world has changed to go to technology or low barrier to entry types of industries, I don't' know what you do.

[0:09:53.4] BF: By changing, you're saying I'm taking this statistically reliable strategy that I've been implementing but I'm going to chuck it and go and do something that is not statistically reliable which is not rational. I did look at some data just I was curious what it looked like so I took rolling 10 year period starting in 1990 and just looked at Canadian small cap stocks which people always talk about how they don't actually perform and they've been bad for 10 years.

[0:10:19.2] CP: Rolling 10 years means like January to December, February to January, rolling.

[0:10:24.4] BF: Shifting forward in one month increments. Over four rolling 10 year period, going back to 1990, small caps have been underperforming, so if we take a given 10 year period, 25% of them, going back to 1990, showed small caps underperforming. 25% of 10 year periods, if you just pick one out of the data, 25% of them, it's like okay, small caps have underperformed the market for the last 10 years.

As an investor, that's probably pretty hard to look at I guess. But what's bigger than 25% of the time is 75% of the time.

[0:10:55.3] CP: That's right. It's also why you have to be globally diversified and also have fixed style location rules in place that if it does underperform, you're selling what did perform better and buying more of it. I mean, we say this every podcast is how those fixed weighting need to be rebalanced all the time. It's an automatic sell high, buy low mechanism.

[0:11:13.0] BF: Yeah. We did have one sort of main topic that we wanted to chew on. In today's episode. Which is the idea of housing, how to pay for housing. The classic question of renting versus buying.

We've been thinking about that a lot for a long time and had an article from Rob Carrick, he's not here, unfortunately but we can still give him a shout out I guess. He had an article last week talking about the cost of renting versus the cost of owning.

But, in his example in the article, he's comparing the cost of rent which is a fixed dollar amount that's fairly easy to establish to the cost of a mortgage. The cash flow, the cash outflow of the mortgage which is not the cost of home ownership.

[0:11:57.6] CP: No.

[0:11:58.1] BF: Ii did tweet this at Rob. So I'm not blindsiding him here. He had an opportunity to respond, he didn't say anything on Twitter. Would have been nice to talk to him about it today.

But one of the wealth management analyst h ere on our team at PWL, also named Rob actually. He saw my tweet and he started asking questions about it, so we started chatting and the conversation, it took me to an understanding or a way of thinking about the cost of home ownership that I hadn't arrived here before and I thought it was worth talking about.

When we compare, this is old news, this isn't the new exciting part yet. But if we compare renting to owning, you don't compare rent to the cost of a mortgage. That's not – that is not how you compare it because the mortgage is not a cost, some amount of the mortgage, depending on the amortization and the interest rate is going toward principle.

The interest is an actual cost. When we're comparing renting to owning, we really have to compare the total cost, the total unrecoverable costs of ownership.

[0:12:52.9] CP: Yes.

[0:12:53.0] BF: Renting is easy to identify as an unrecoverable cost. You pay whatever, $2,000 a month it goes away to your landlord, you get a place to live and that's it.

[0:13:03.1] CP: Yeah.

[0:13:02.9] BF: Home ownership also has unrecoverable costs.

[0:13:05.8] CP: Without a doubt. As home owner, I can guarantee you that.

[0:13:09.0] BF: Yeah. Then this is the part that people don't often think about. It's like never. Once you own a home, you have property taxes which is 1%. You have maintenance cost which again, like in Rob Carrick's article. He said, you could probably use 1% estimate.

[0:13:23.9] CP: I bet that's low.

[0:13:24.7] BF: Yeah. Who knows.

[0:13:25.9] CP: 1% per year.

[0:13:26.9] BF: I usually use 1% when I'm doing analysis on this stuff but I've also had people tell me it's probably low. That's 2%, property tax and maintenance costs. 2% of the value of the home that you are paying an unrecoverable costs each year. $500,000 home, that's somewhere around $10,000 of unrecoverable costs that are gone.

[0:13:43.4] CP: Absolutely.

[0:13:43.9] BF: Now, that part's easy. The one that people miss is the cost of capital. If you're a borrower, if you financed the majority of the cost of the home, you're paying interest on the mortgage debt.

That's fairly easy to see because your bank tells you what you're paying in interest, they tell you what the interest rate is and all that stuff. The one that really trips people up and that often gets or almost always gets ignored when I see people talking about renting versus buying is the opportunity cost of your equity.

[0:14:09.2] CP: The down payment.

[0:14:10.0] BF: The down payment, the equity in your home if you've paid it off. When people say, "I paid off my home, now I don't have any more costs." No, your cost have probably increased because the opportunity cost to your capital on a $500,000 home with no mortgage, even though you've got an opportunity cost on $500,000 which is dependent on your situation.

[0:14:27.7] CP: It's even more so if you have RSP room TFSA room, right?

[0:14:31.5] BF: Well, that's what I mean by depending on your situation. If we take somebody who has – I mean, let's think about opportunity cost of equity capital. If you have $500,000 in the home in the example that we're talking about here, that's $500,000 that could alternatively be invested somewhere else. If we just throw some easy numbers out and say you can earn 7% on average for stocks which is probably high but we'll go with that number. We expect real estate to grow at 3%.

[0:14:57.7] CP: which is also on average, probably high.

[0:15:00.7] BF: It's probably - well if we look at the data globally, real estate's been about 1% in real terms. 3% nominal account with inflation is probably reasonable. Call it 3% nominal before inflation. Same thing. 7% nominal.

That means that the difference between those two, like if you could be earning 7% in stocks but you're only earning 3% in real estate, then you've got a 4% opportunity cost of your equity capital.

4%, I mean, that's a big number if we're talking about $500,000 home, that's $20,000 in additional unrecoverable cost that you're paying as a fully paid homeowner. The thing that gets really interesting and this is the part that I hadn't thought about in the past is that your cost of equity capital, your opportunity cost of equity is highly dependent on your individual situation.

That's the thing that you just mentioned Cameron, about the RSP and TFSA. It's like, if we're saying you got a 7% expected return, that's pre-tax. You're going to get that in your RSP or your TFSA but if we start talking about a taxable account, especially for someone taxed at a higher rate, 7% might be, I don't know, 5%.

[0:16:07.9] CP: Three or 4% after tax.

[0:16:09.7] BF: Yeah, even 4% depending on the type of income they're earning. That changes the whole conversation. All of a sudden, if you have –

[0:16:15.9] CP: It's crazy, you start to think about how your situation might even change over the lifetime of ownership of the house. You might start out as a typical person not having a lot of assets, scraping together the down payment but over time your income changes.

[0:16:28.7] BF: Right?

[0:16:29.3] CP: Your opportunity cost would actually be going down most situations because you get caught up on those other accounts that top up.

[0:16:35.3] BF: Which means, when people usually buy their house which is early on is when their opportunity cost of equity capital is the highest.

[0:16:40.2] CP: Yes.

[0:16:41.2] BF: Before I even kind of figured out this way of thinking about this is the plan that Susan and I have always had is max out all of our – both of our registered account rooms. Plus the RSP room, all the tax free spots, max those out and invest in an aggressive portfolio.

And actually, that's the back pedal, the other variable in this cost to capital conversation is your equity banks. If you have registered account room and you're an aggressive investor, you've got a 100% equity portfolio, your cost of capital is even higher.

Which means, owning a home, if you don't have your registered accounts maxed out is potentially extremely expensive. Anyway, our plan has always been to max the registered account so with 100% equity portfolio and then start saving for a house.

[0:17:22.6] CP: It also makes the argument. If you don't need to use the RSP as a home buyer's loan, don't. Because you're giving up on that higher opportunity cost.

[0:17:28.8] BF: Right.

[0:17:29.7] CP: Or opportunity benefit of leaving the money inside the RSP, especially if you're a higher equity investor.

[0:17:35.3] BF: Yeah, that's a really good. –

[0:17:36.2] CP: A lot of people use the RSP as a down payment to avoid, well, first of all, just to get into the house which that's a priority, fine. It also do that to avoid some of the CMHC mortgage insurance.

[0:17:46.1] BF: Right. Anyway, the whole point of the discussion is that when you're looking at that decision of renting versus buying, it shouldn't be about – I could rent for $2,000 a month but I could get a mortgage for 1,800, that's the wrong way to think about it, I think. It's more about looking at your total unrecoverable costs.

Rent, as we've talked about, that's super easy to identify, if rent is $2,000 then you've got a $2,000 per month unrecoverable cost for renting. But for the home, you've got to take your property tax, your maintenance cost, maybe the difference in utilities like Rob Carrick in the article that he wrote, says that you're as an owner, as opposed to a renter, you're probably going to have higher utility costs because he figures you're renting a town home or a condo when you're probably buying a home. I don't know if I'd include that.

[0:18:26.6] CP: The biggest advantage of a home ownership and wealth creation is you get that behavioral habit, you're never going to miss a mortgage payment and over time, over your lifetime, you typically will build up hundreds of thousands of dollars of equity which you might not have done otherwise.

You have to be extremely disciplined.

[0:18:41.8] BF: Absolutely.

[0:18:42.0] CP: To even do this kind of math and keep up the savings if you choose to rent?

[0:18:46.5] BF: For sure. Well we think about the cost of equity capital, if you're a renter and not saving then there's no capital.

[0:18:53.4] CP: Yeah.

[0:18:54.0] BF: There's no opportunity cost because you're not saving it in the first place.

[0:18:56.0] CP: All I know is that that it costs a lot to have a house and you're forever running to Canadian Tire and Home Depot on the weekends and the money just melts in to the house over time and there's no way anyone ever accounts for all that but if you have a high utility. You enjoy owning your own home, that's the whole different story so.

[0:19:11.5] BF: Which is totally fair and I've never personally have never felt that. I've never felt the desire to have a home. But I know a lot of people do and you're right. We've talked about the numbers and the unrecoverable cost and how and a lot of cases renting is overall cheaper, especially if you have registered account room. And you're an aggressive investor but for a lot of people, they would hear that and it would go in one ear and out the other.

Because they want to buy a house because they want to knock down a wall and I don't know, renovate the bathroom. Which is - when we talk about home ownership, that idea of renovating and fixing stuff up and kind of what you're talking about those weekend trips to Home Depot. That's the stuff that kills you, that's the stuff that kills you.

[0:19:47.7] CP: Yeah, you just don't pay attention to it and you really have no choice once you own it, you got to fix the dishwasher or whatever come up, you got to do what you got to do.

[0:19:54.5] BF: People will put big money into big projects, thinking that they're going to get the money back, they think about it as a –

[0:19:59.9] CP: Yeah, some places you will, depending what part of town you live in. Hot market perhaps, I know where I am, no. We look back quickly since we bought it 15 years ago, I don't think we've even kept up with inflation.

[0:20:11.4] BF: Yeah. That's what Alex Avery, the guy that wrote *The Wealthy Renter*, I think it was called. He's a real estate analyst in Toronto but his golden rule of investing in real estate is that buildings never go up in value. Land does. Buildings never do.

The idea, he calls it the investment illusion where If you think you're putting 50 grand into the kitchen to make it look nice before you sell the house, if you're thinking you're going to get that money back and then a premium. He's saying, not a chance. Or at least, don't bet on it.

[0:20:38.4] CP: Right. He gets that article that Larry Swedroe put into post on etf.com last week.

[0:20:44.2] BF: I saw you put it up but I didn't get a chance to read through it.

[0:20:47.1] CP: I thought it was a pretty good article and summarized nicely, frankly, much the stuff we talked about today, that even go through, I mean, a lot of these points are pretty straightforward. It's worth mentioning quotes right off the top. Buffett's famous quote which is once you have ordinary intelligence, what you need is a temperament to control the urges that get other people into trouble investing.

We're living that now, right? With the market's kind of rolling around a bit a lot of people have this need to take action, make a change as much for their own feeling of control, anything else. Point number one, when strategies are working, it's super easy to stay the course obviously, as we talked about that five-year return earlier, 12%. If you seen that as very easy. Just need to understand the risks.

Number two, know the investment history and this is something we talk about a lot with clients. Understand the expected dispersion of returns, what's a normal great year, what's a normal not so great year and know it's going to happen and don't rely on your advisor to protect you from that. Expect the advisor to help you behave well through that.

Number three, ignore all forecast. This is one I think is so hard for people because some of this has got great confidence and a speaking in the media, making the forecast sounds so compelling but you never really have a chance to do a real time check on their past forecasts to see if it actually added value in the past.

Knowing that there's thousands of people like that in the world and great technology and social media and Twitter and everything else, This information is [inaudible] very fast so I'm not sure it's very wise to rely a whole lot on forecasts.

The next one which we actually talked about with somebody this morning here doing their plan which is don't take on more risk that you need to. Someone was asking this morning, was about to retire, should we change to 60/40 portfolio mixed with 80/20 to have a higher expected return.

We kind of flipped around and said, well, you don't have to, in fact you could lower your return expectations, go to 50/50 if you wanted to or even keep a bunch of your funds in simple high interest savings and GICs and you'll be fine. He was so relieved to hear that. He actually chose to do that because he wants to reduce the volatility. So, in that case, he's not taking a more risk than he needs to.

Number five and this is you talked about earlier which has to do with small caps which is even good strategies have bad outcomes. 10 years is not a long time. Just because the small caps under performed for a decade doesn't mean it was a bad strategy.

[0:22:59.3] BF: I think that all the time because it's true. You could even have, I mean, Fama and French, from the episode we did from Chicago, we talked about this but Fama and French did that paper recently where they showed, I don't remember the distribution of outcomes now but I think it was even over 30-year period, stocks had a 4% chance of underperforming [inaudible] of something in that range.

We're talking about the range of outcomes, it's like, even over a 30-year period which you'd like to think you're highly likely, well still highly likely. You'd like to think that you're guaranteed to get the expected outcome over 30 years, you're not. You can still get small caps underperforming although statistically unlikely.

You could still get value underperforming but same thing. You can get stock, underperforming bonds over 30 years but it's statistically unlikely. If you get that outcome, I mean, that just sucks. What else would you have done? Something less statistically reliable and hope for a better result, doesn't make any sense.

[0:23:50.3] CP: Think of all those 30-year periods, fine, there might be whatever, 130 year periods and that analysis but you only get one thirty upgrade and if the market tanks in your 30th year, that's really the point, you know, stocks don't become less risky over time.

[0:24:03.6] BF: That's right. He had 100,00 simulations using bootstrap. That's what Fama said and in the end of his talk, he said that there's - over long periods of time, the risk off the average return decreases but the risk of the return remains constant because the return is just the one sample of the hundred thousand that you happen to get, he says return is what you eat and returns is what puts food in the table, something like that.

[0:24:26.0] CP: Another point that Larry made was minimize how frequently you check your portfolio. I would say our clients are clients are pretty good, I don't think they're too OCD about checking their values?

[0:24:34.7] BF: That depends. I got an email after our last show from someone saying that they – one of the reasons – we talked about this in the last show which is one of the reasons they noted it. But one of the big benefits of having someone doing it for you and having it be hands off is that you're not going to tinker.

If you remember in the last episode, we talked about how, if you're already buying your own ETFs, it's pretty easy to buy Tesla while you're in there. While I'm here, I might as well buy some –

[0:24:58.2] CP: And you're probably over confident.

[0:25:00.2] BF: Right, and you're probably over confident because you've self-selected as someone that can do it yourself. Anyway. Yeah, I think in general, our clients are happy to have washed their hands of this task.

[0:25:11.1] CP: Yeah, the next one I thought was interesting is especially thinking back to your discussion with Shane Parrish a couple of weeks ago. Keep an investing diary of your decisions. I've never seen anyone actually do that.

[0:25:21.3] BF: No.

[0:25:22.0] CP: I think they will be really interesting to go back and – I remember some people made decisions as market rolled around, early January a couple of years ago when things weren't so good. I know some people did change and went to have your fixed income with their monthly contributions. Which isn't' the end of the world but you kind of wish you'd go back, roll the tape back and remember those decisions.

[0:25:41.6] BF: And Shane's the whole thing is keep track of your decisions but keep track of why you made them.

[0:25:45.2] CP: Right.

[0:25:45.6] BF: Because you may get a favorable outcome for a reason different than what you expected.

[0:25:49.7] CP: That was the point, exactly.

[0:25:50.9] BF: Yeah. You know what? In client relationships, we in a lot of ways become that decision diary because we document everything but we also remember everything every time we are with the client and as we decide to do things, we are documenting that.

And so if someone comes back, it's actually really interesting. It ties back to all the other stuff we're talking about. If someone comes back and says, why are we in small caps? Because they've underperformed for 10 years, we're there to tell them. We have the data.

We know why we decided to use this approach and we know why they agreed to it at the beginning. That ends up being one of the most important parts for us, I think, of the relationship with clients is that we are that decision diary.

[0:26:27.6] CP: Absolutely.

[0:26:28.0] BF: Sounding board to come back to all the time.

[0:26:30.5] CP: Anything else on your mind?

[0:26:33.0] BF: No, nothing really. I thought it was – it's good to get that cost to capital discussion for real estate off my chest. Thinking about it all weekend.

[0:26:39.9] CP: We got some interesting guests coming up over the next few weeks. We'll continue to mix in our own conversations and go from there.

[0:26:46.3] BF: All right.

[0:26:47.6] CP: That's it.

[0:26:47.5] BF: That's it.

[END]

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