

EPISODE 27

[INTRODUCTION]

[0:00:05.3] 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.

[0:00:16.5] Cameron Passmore: I think this is the kickoff show to the new year.

[0:00:18.9] BF: Yeah, I guess it is, isn't it? We had a great guest for this episode, it was Robin Powell and he's been a major global advocate of evidence-based investing for years – I don't know how many years but a while.

[0:00:30.5] CP: I have been following him for at least a decade online and with the number of documentary videos that he has online. We chatted back and forth online.

[0:00:39.3] BF: His business is like, he does have a vested interest in evidence based investing. He creates content specifically video content for evidence based financial firms to promote the investment philosophy.

[0:00:52.3] CP: What's cool though, he's a journalist. He's worked for ITV, Sky news, BBC and I thought it was interesting how we described the role of journalism is to present the evidence as to what makes sense and not just become mouthpieces for the industry. He really does call out the industry I think in a positive way to try to make a change.

[0:01:11.4] BF: Yup, he generally produces fantastic, well, British, like BBC type documentary content but has lots of good stuff to say.

[0:01:19.2] CP: we reached out to him from Birmingham, England and have a listen.

[0:01:22.3] BF: Yeah, good episode.

[INTERVIEW]

[0:01:29.5] BF: Robin, welcome to the podcast.

[0:01:31.5] RP: Thank you very much for having me.

[0:01:34.1] BF: Robin, I don't know how many of our listeners will know who you are, can you briefly describe with yourself and what you do?

[0:01:40.6] RP: Right, okay. Well I'm a journalist, I was a television reporter for many years, not especially distinguished in particular build as a jack of all trades TV reporter on network and regional TV, news and current affairs here in the UK. Worked for ITV, BBC and Sky News. Yeah, you sort of get to an age where, in television which is very agist profession.

They kind of sort of push you to one side and say, "Isn't it about time you were moving on now?" I set up my own company and we produce broadcast quality content for organizations, all kinds. But we specialize in content for financial advice firms.

[0:02:23.0] CP Robin, you and I have been following each other for years, I know, sharing kind of tweets back and forth, stories back and forth. I'm really curious as to what event caused you to become so interested in being part of spreading this evidence based message.

[0:02:38.9] RP: Okay, I can be very precise about that Cameron and I've always been pretty interested in investing. I thought I knew far more about it than I actually did and basically, six years ago, we were approached by a wealth management company here in Birmingham, England where I'm speaking from, they had a – I would now call an evidence-based investment approach and they basically wanted to educate ordinary investors about this wave investing like a lot of financial planning firms they meet with high net worth individuals but as you and I know and this is a way of investing that can benefit everybody.

We all invest and so we made a documentary called *Passive Investing Evidence* for which I interviewed Jack Bogle, Charley Ellis who again you guys will know, Nobel prize winners like Eugene Farmer and William Sharpe.

And I'll be honest with you guys, I was shocked, I was honestly shocked that there's so much information out there about how people should be investing and yet, not only do most people do pretty much the opposite. We're actually encouraged by the industry, people who are supposed to be pointing us in the right direction, we're actually been encouraged to do things precisely the wrong way and yeah, it shocked me.

[0:03:59.9] BF: Can you talk a little bit more about the impact that speaking with people like that, the type of people like that, the type of people that you were just mentioning? What kind of impact did that have on you personally?

[0:04:07.7] Robin Powell : Well, I could separate the kind of evidence if you like from the people who were telling me the evidence. I mean, the evidence is just completely compelling and a lot of people who started writing this stuff are no longer with us. I mean, thinking the likes of Paul Samuelson for example. I interviewed Harry Markowitz a couple of years ago, he's in his early, I think he's 91 or 92 now. This stuff has been around for a long time.

I found the evidence compelling but some of the characters involved in kind of trying to change investing for the better, I mean, I just found them just so inspiring. I mentioned Charley Ellis there. He was the guy who wrote this paper in I think 1975, *Winning the Loser's Game* which really, I suppose, kicked everything off in terms of making people realize that the active fund industry isn't serving consumers very well, he's a great guy and then of course, I mean, Jack Bogle, you know, living legend.

Founder of the first retail index fund, Vanguard Asset Management against such an inspirational guy. People said to me, how did you get all these Nobel Prize winners to speak to you? To be honest, if you spend decades and decades writing about something that is largely being ignored, my experience is, people are actually quite grateful to have somebody come along and ask them about it.

[0:05:35.0] BF: Now you've got this film and we don't have a version in Canada yet but we'll talk about that in a minute but where you have released the film, can you talk about the impact that it's having?

[0:05:44.0] RP: Okay, In fact, there are now several films, that was the first film, *Passive Investing the Evidence* and we produced that for an organization called Sensible Investing TV which was effectively run by the wealth management company in the UK, I told you about the commission that first film.

I looked the other day and I noticed we're rapidly approaching a million – one million views worldwide. Not much as to that documentary but that related material, basically. You know, I'm pretty pleased with the impact that it's had. We have since done a follow up film called *How to Win the Loser's Game*, again, Sensible Investing TV, we've made a film for specifically for the US market called *Index Funds - The 12 Step Recovery Program for Active Investors*. A bit of a mouthful that one.

We've also produced one, our most recent, *Investing: The Evidence* which was originally commissioned by a firm here in the UK called RockWealth. We have just released an American version and we are – funny you should mention that, we are actually now working on a Canadian version as well.

[0:06:54.2] CP Can you tell us more about that Robin? What are your plans for the Canadian market?

[0:06:57.8] RP: Yeah, well, to be honest, the whole of the world really is ripe for the evidence based investment approach but there are one or two countries in particular which in my view, are really crying out for it. One actually is Australia. I don't know if what's going on down there but there's been a royal commission and it's due to report next year I believe and the interim report is absolutely damning about the conflicts of interest in the banking, financial services and financial advice industries. I really think there's potential for evidence based investing there.

And secondly, Canada, I mean, you know, what is it with you guys and big banks, you know? You like your banks in Canada and certainly here in the UK, I mean, banks had an image of being thoroughly, kind of, safe and professional and trustworthy and they've badly let us down as well.

I think I'm sure of what I've read that something very similar has happened in Canada and yet it's the big banks, the big financial institutions which are completely dominating the investing industry.

Your fund fees are among the highest in the western world and yet you've got people just over the border, in the United States who are paying the lowest fees in the world. Yeah, what I say to Canadian investors is you know, "Wake up. You're largely, sadly, you're being ripped off."

[0:08:33.9] BF: Yeah, we know that to be true. I think you just pointed out a lot of the important differences in Canada. I think in a lot of ways, we're very similar to Australia in terms of the things that you mentioned.

[0:08:43.6] RP: I think so.

[0:08:45.1] BF: One of the things we wanted to ask you about is, in the UK, I think it was in 2012. They changed the disclosure proficiency and compensation rules for financial advisors and from what we've heard, obviously, we're not there but from what we've heard this has had a big impact on the industry there, including, reducing the number of advisers and this is really interesting for us because as of right now, we have some proposals from the regulatory bodies to do very similar modifications to our rules.

What we want to ask you is, can you tell us what the impact of the rule changes were in the UK market? And should we be scared like the lobby groups make us think we should be scared?

[0:09:21.6] RP: Well, it hasn't it hasn't had a big impact over here. What you're referring to Benjamin is called the retail distribution review and basically, this tried to align the interests of particularly financial advisors with investors. Now, you would like to think wouldn't you, that the interest of advisers and their clients would be aligned, you know?

You go to a doctor and you expect them to give you good advice and any treatment and prescription they recommend is in your interests, if you like. Alas, you know, for various reasons, that has not been the case in the financial advice industry worldwide. What RDR did was it effectively banned commissions paid by product providers to financial advisors for selling

their products. I mean, we call the commissions, we might as well call them bribes, to be quite honest.

Sad, though it seems, this was the way that the whole industry supported itself. I mean, that was the business model for advisors, they were paid commissions and they often, they solved the products that paid the biggest commissions and you know, you could argue financially, well, you could definitely argue were financially incentivized to what's called churn those investments quite regularly.

In other words, you know, they would go to the client and give the impression that they were actually doing some good by moving them out of one fund and putting them into another. Where in fact, probably, you know, they may well have actually been better off just keeping them in the same funding the first place. Yes, it's been good RDR has been good and it has removed commissions and as you say, Canada is now considering following suite and several other countries worldwide.

The thing that depresses me about the Retail Distribution Review. You would have thought, wouldn't you? That if advisers have no financial incentive to sell for example, a high fee investment over a low fee investment, that they would shun the high fee investment and they would go for the low fee alternative. But unfortunately, what we found is, the kind of relationships between advisors and those big product providers are so close and they go back such a long way.

The advisors are pretty much recommending the same old expensive and fairly rubbish-y products, which is a great shame.

[0:12:07.4] BF: That's really interesting. The thing that the lobby groups keep saying in Canada, they just had a symposium recently where they reinforced their position. They keep telling investors that if we get rid of embedded commissions that it's going to reduce access to financial advice. Can you talk about – has that happened in the UK?

[0:12:24.2] RP: Okay, I can sort of see that argument because if you think about it, commissions was a nice sort of quiet way of taking money away from the client without them particularly noticing very much. Let's face it. The markets on the whole, deliver a pretty healthy

return over time and actually, it's very tempting and actually, quite easy for unscrupulous financial professionals to actually take part of that return if you like for itself and quietly take it from out of your account and put it into theirs.

What is now happening is that investors are realizing, crikey, I'm being given a bill here for 1,500 pounds for some financial advice. I wasn't sent that bill in the past and of course, you weren't sent that bill in the past but you are now probably paying at least that much. In fact, probably far more by way of ongoing commissions. Effectively, what's happening now is the industry is being forced to be honest with investors about how they're paying and how much they're paying for advice and for asset management.

[0:13:49.0] BF: Right, when the lobby groups say that it's going to reduce access to advice. What they really mean is that people who are getting screwed are going to stop paying for the advice that they were getting that wasn't very good anyway.

[0:13:59.2] RP: Exactly right, yeah. This is why it's really so important for reputable advice firms like PWL for example to really educate investors about the value of good financial advice. I mean financial advice in the past, the impression given is that it's been all about recommending funds or moving you out in one investment and putting you into another but really good financial advice has nothing to do with that. Financial advice does offer substantial value over time and it is worth paying for and yeah, we've got a really important educational job to do.

[0:14:43.6] CP: A lot of that education is communication, correct? I mean you are a communicator at heart that's what you are training is and something about this movement has gotten you to be quite active in this and part of the reason for doing this podcast, Ben and I realized we have to get this message out to more people but it is very hard to change people's minds on for example, active versus passive. Has that been your experience?

[0:15:06.0] RP: The Evidence Based Investor until now has really just been a labor of love that the challenge is actually how to – for a communicator like me is actually how to make a business out of telling people the truth. You know as Jason Fried here on the Wall Street Journal has famously said on a few occasions, "The way to make money is to lie to people who sort of want to be lied to," if you like.

I think the journalism profession has and I'll say my fellow journalist. I am proud to be a journalist but to be honest, I am not proud of certain sections of the financial media who in many ways have actually been part of this deception if you like and have not helped investors over the years. For example, I am sure you have exactly the same in Canada but here every weekend, the British press is full of financial pages in recommending specific products and specific strategies and in a couple of months' time, they will have forgotten about those and they will move onto something completely different.

And another problem with media of course is that it is always focusing on the short term and as we know, that is one of the major kind of problems investors face that they really need to think about investing over a very long term and really just trying to blot out this short term noise. So in a sense I suppose what I am trying to do what I would like journalists for mainstream organizations to be doing and really telling investors the truth about what is best for them.

[0:16:50.7] BF: Do you think the media will ever change?

[0:16:52.2] RP: At the end of the day, journalists need stories and the problem is I remember having a conversation with Ken French about this. Now you and I know who Ken French was but he is an academic at Dartmouth College in the US. He has done a lot of work with the Nobel Prize winning economist, Gene Fama and I said to him, "You know why do you think the media is so against low cost index funds? Why is it so supportive of the active fund industry?"

And he says, "Robin the problem is that these magazines they don't want me on the front cover every month telling them that you know, successful investing is essentially quite boring." You know? It is about saving pretty well as much as you can as early as you can, keeping your costs low, diversifying and frankly not doing very much else. You know it is a bit like a slimming magazine having to sell copies just by telling people they need to exercise more and eat less. It doesn't go down very well with the advertisers unfortunately.

[0:18:01.5] BF: I love that story about Ken French. Do you have any other favorite stories from all of these conversations you've had over the years?

[0:18:07.4] RP: Yeah, there are some real characters out there. As I say, something that I have really noticed is the academics who've devoted their whole careers to this subject are actually

very happy when somebody comes all the way from England to come and interview them. I remember for example going to see Professor William Sharpe in Carmel, California. A beautiful town on the west coast of the United States and he is just the guy who the media ought to be going to for advice and quotes and so on all the time.

And he is a Nobel Prize winning economist and yet he was just completely bowled over by the fact that I have taken the trouble to go and see him. Same with Harry Markowitz meeting him San Diego in his local bagel shop where he insisted on meeting me. And it was a huge honor for me to meet these massively distinguished individuals but my experience was they were just glad that somebody was actually giving them a voice.

[0:19:16.8] BF: Right, meanwhile Jim Cramer has got a voice on TV every day.

[0:19:19.4] RP: Oh exactly right and I see he's just so part of his business or something and make quite a lot of money out of it. You know it's exactly as Jason Zweig says that the way to make money is to tell untruths or to mislead people who want to be misled and yeah, it is just a sad fact of life.

[0:19:41.3] CP: So I am going to ask you to put on your predictive hat here Robin and if everything you're working on has the impact that you wanted to have, what do you think the financial services looks like in the future?

[0:19:53.5] RP: Well whether I will be a hero or pushing up the daisies, Cameron, when it happens I am not sure but eventually I can see investors being much better educated than they are now. I think the really exciting development is the growing middle classes around the world particularly in the likes of India where, I understand, I read a statistic the other day there's going to be another 420 billion US dollars invested in the markets in India alone, over the next 10 years.

You've got rising middle class in China. And these people, they're going to be working hard. The young aspiring professionals is going to be working hard for their money and they are going to want to know the best way to invest it and that is the other thing that's different about the younger generation too. If I say our generation or older, maybe not your generation, Benjamin,

but basically it's all out there. It is on the internet and if you do a Google search about am I better off using an index fund or an active fund, you are going to find the information eventually.

Okay, you might find lots of sites who are trying to mislead you but the information is out there and that is the really exciting thing.

[0:21:21.1] BF: For sure the information is out there. And one other thing that has happened in the last 10 years is the advent of robo advisors. We've talked a little bit about human financial advisors and the value that they add. Can you talk a little bit on your thoughts about how did the human financial advisors fit in going forward as things like robo advisors services grow?

[0:21:40.1] RP: Well especially in Canada of course you've got Wealthsimple who are, I believe a Canadian firm, you've Nest Wealth, Justwealth. I mean in a sense Canada is the kind of epicenter of global robo advice a couple of successful ones in America, Betterment is particularly impressive and so on and these are all really good solutions. And frankly for many people even go as far as to say most people, these are really good solutions.

However having said that, investing is just one of the things that you need to think about when you are planning your financial life and there are certain things, there are certain people skills that you will never get from a robo advisor, that you can only really get from a real life, face to face financial - and I do think that however big this robo advice things becomes there will always be a place for good financial planning firms.

[0:22:46.7] CP: So clearly Robin you're on a mission. You are on a big mission here and a question we've asked a number of our guests recently is and I want to ask you, on this mission how do you define success?

[0:22:59.9] RP: Right, Einstein once said, "You know don't aim to be a success. Aim to be of use to people." And personally, you know I will consider in my work and my career, my blog and so on as having been a success if I can help people. I can point people in the right direction that effectively means that they keep more of their investment returns for themselves instead of funding other people retirement and they will actually start funding their own. That for me will be success.

As I eluded to earlier, I think it's actually going to take quite a bit longer than a lot of us are hoping but I think we probably in the next 20 years or so going to be moving to something like – well at least 50-50 active-passive investing around the world. Hopefully fees particularly active fund fees will come down much further and hopefully the advice profession will improve as advisors really do start to learn how they can help their clients, how they really add value.

[0:24:14.1] BF: That's a great point. That might be the biggest change of all getting investors to change their minds is one thing but getting financial advisors to shift from a sales focus to actually figuring out how they can add value, that's a big change. And that may even have to come from regulation. I am not sure.

[0:24:28.9] RP: Indeed, I mean because we're all business aren't we? We all have staff, we all have overheads, we've all got to make - try to make a profit. But actually there was a survey in the United States recently of millennial investors and they were asked what they want from an advisor and one of the things that came out very strongly was they do want advisors to educate them, to fill in the gaps in their knowledge.

You know we have this impression of millennials as being sort of know it all and quite happy to manage on their own and they don't want the advice of the older generation and everything else but actually that's not what this survey was saying. It is saying the opposite, you know? They want help and frankly - and I am not just saying this to be polite but it's companies like its financial advice firms like PWL who invest properly in high quality education content that I think are really going to be in demand over the next 20 or 30 years.

[0:25:31.5] BF: That's interesting. We had similar feedback from the clients and non-clients that listen to our content.

So Robin, we are getting to end of the time limit that we like to keep this episodes to. Is there any final thoughts that you have?

[0:25:42.9] RP: Well first, I would just like to congratulate you on the excellent content that you are putting out and I enjoy your podcast, I enjoy your videos and Nancy Graham's videos as well and your blogs. This is all really good content that is having a really positive impact and just also just really encouraged by all these other writers in Canada now like Rob Carrick for

example, at the Globe and Mail, Larry Bates, Dale Roberts, John Chevron all these sorts of people who are really attributing to investor education.

I actually had the privilege the other day speaking to a lady called Stephanie Griffiths who used to work on Bay Street as an active fund manager and she just came to the realization that actually - although in fact her own fund was fairly successful, she couldn't tell whether it was frankly, simply just luck or skill that had produced that modest out performance over the years and she's now written a book called *Sit Still and Prosper* which has just come out.

Which basically encourages people to invest in pretty much the PWL way if you like, keep their cost down, diversify and yeah, sit still do nothing, prosper. And I am just really encouraged by the noises coming out of Canada at the moment and let us just hope that in the coming years Canadian investors, will be better serve and they have been by the big banks over the last 30 years or so.

[0:27:21.4] BF: That's great Robin. Well thanks again for coming on, we really appreciate it.

[0:27:24.5] CP: And you are having an impact on Canada. We've been following each other for years and thanks for all that you do Robin.

[0:27:30.1] RP: That's very kind of you guys, thank you very much for having me on.

[END]

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