EPISODE 30

The Authority Speaks: A Complete Guide to Investing and Retirement with Larry Swedroe

[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.

Today, we had, I don't know if he's the most high profile – well, in our world, the most high profile guest that we've had to date probably, right?

[0:00:24.6] Cameron Passmore: Certainly one the highest profile guests.

[0:00:26.6] BF: Yeah. We had Larry Swedroe and he's, I mean, he literally wrote the book on everything that we talk about, factor investing, index investing, the evidence, portfolio management, asset allocation, you name it, he's written a book on it.

He just released, in early January of this year, his newest book, which is on retirement planning and Larry as always takes an evidence based approach so he wrote this phenomenally well written book on – I'd call it evidence based retirement planning.

But everything from asset allocation as per usual but also how you should live your life and how you should approach the psychological aspects of retiring, it was fascinating.

[0:01:08.7] CP: He's an amazing guy, he dedicated a lot of time to us, he was in no rush at all, he might still be going if we had the time and he's always been gracious, even when I reached out to him back in 2003 to speak for us, he was very gracious from St. Louis to be with clients, he's done a three or four times over the years just a very giving, nice guy.

[0:01:27.8] BF: I guess we should talk about who he is, he's the Director of Research, right? At Buckingham.

[0:01:32.8] CP: Strategic wealth, which is a very large RIA in the US, they manage 12 billion in their own RIA. which is impressive.

[0:01:41.3] BF: Yeah, Buckingham's huge because they've got Buckingham, as strategic wealth and then they've also got the Buckingham Alliance, right? Where other RIAs can plug in to.

[0:01:49.4] CP: I think that's another 30 or 40 billion on top I believe that they did the back end for.

[0:01:54.3] BF: Larry writes, I mean, if you google anything about the kind of stuff that we talk about in the podcast, Larry's going to be on the first page, whatever the topic is.

[0:02:02.9] CP: He's very active on Bogleheads I believe he's been on NBC, CNBC, CNN, Bloomberg. He writes lots and lots of articles and all kinds of different investment subjects. Anyway, his thoughts generally align very closely with ours so it was fun to ask him some of the questions that you hear maybe Cameron and I talking about with each other, good to hear a third perspective on the similar topics.

[0:02:26.2] CP: Also questions that we've got from listeners. It was good.

[0:02:28.0] BF: Yeah, it was a good episode. We'll head over to the episode.

[INTERVIEW]

[0:02:36.0] CP: Welcome to the podcast, Larry.

[0:02:37.6] Larry Swedroe: Thanks very much. Great to be with you and Ben.

[0:02:39.9] CP: We have a handful of questions for you, related to your most recent book called *Your Complete Guide to a Successful and Secure Retirement* and then after that we'll have some questions related to your other work over the years.

Can you first of all talk about why retirement today might be more challenging than it has been in the past? Or I think you described it in your book, as the four horseman of the retirement apocalypse.

[0:03:03.4] LS: Yeah, the US investors in particular, I can speak to have really been blessed having lived through a period where both stock and bond returns have been very strong. Over the very long term, a conventional 60/40 portfolio, since 1926 when we have data, has returned about eight and a half percent or so and over the last 36 years, this golden era since 1982, that's a return to over 10%. That has allowed investors to build a large portfolios to provide for a successful retirement.

Unfortunately, we're now faced with, one, much higher equity evaluations than historically the case and high evaluations, unfortunately forecast lower expected returns, the more you pay for earnings, obviously, the lower the expected return should be and the financial crisis we faced in 2008 and what's happened since then has driven bond yields to exceptionally low levels. So that most financial economists today think us stock returns are going to be in the six to 7% range intermediate, high quality bonds or at about two and a half.

A typical 60/40 portfolio, instead of providing over 10% as it has over the last 36 years is much more likely to be in the range of maybe 5% or maybe even a bit less. You have the dual hurdles of higher equity evaluations and much lower bond yields. Meaning, you're going to have to save more because your returns are expected to be lower. Those are the two are the horseman, the third is kind of a good news bad news, the good news of course is we're living much longer.

When I was growing up, I didn't know many people in their 70s and today, typical 65 year old couple average life expectancy of second to die is almost age 90 and that means half the time, someone is going to be alive a lot longer. So you have to plan on today 30 years I think at least so you need the money to last longer so that means you're further challenged and lastly because we're living much longer, the odds of needing long term care at some point jump dramatically once you become a senior citizen.

So much so, by the time you're in your 80s, if you were to live that long, more than half the population will need long term care and complicating matters even more for US citizens anyway is the fact that social security if the government doesn't take action and now just 13 years will

only be able to pay out 75% of the promised benefits. You may have that fifth horseman of the apocalypse yet to face.

[0:06:21.1] BF: That's so interesting Larry. In the book, you go over the nine most common retirement planning mistakes, that you see. If you had to pick the single most harmful, which one would it be and why?

[0:06:32.9] LS: Pretty hard but I think I would choose this one. One of the biggest mistakes that I see investors make is that they think of their expected return of their portfolio in a deterministic way. For example, I expect to get 7% from my portfolio and they think of it, I'm going to not only get that 7%, kind of like with certainty but they also think they're going to maybe get it every single year.

Which obviously is not correct and what investors fail to understand is that when you're in the accumulation phase, the order of returns doesn't matter as much as it does as it does in retirement. Because in retirement, if you retire and immediately, you face a bear market. You can't recover from funds you have spent.

And so retirees face what they call sequence risks. The only right way to think about expected returns instead of as one particular number is to think about the typical bell curve, normal distribution of returns where your expected return is just the median and if we think about using a Star Trek term, alternate universes that might appear, let's say you had 5,000 possible alternate universes you might live thorough, that 7% expected return is the median outcome of those 5,000.

And may mean that 40% of the chances, you'll get 8% or more, 20%, nine or more and in the US if you are lucky, and you retired in 1980, the next 20 years, you got almost 19%. If you're in Japan since 1990, you've had negative returns for now 30 years.

You're in the left tail, the only right way to think about financial planning is that you have to build the plan that incorporates the possibility of any of those outcomes in that distribution could occur. The failure to account for that sequence risk, leads too many people to spend more money than they should be in retirement and two, not building a large enough portfolio, maybe retiring early as well.

[0:09:02.9] CP: So interesting and we do a lot of that kind of randomization work with clients as I know you and your firm does. Now, this really focus on the numbers but if we think of non-numerical things for a second, what do you think are the most important non-financial elements that people should be thinking about as they head into retirement.

[0:09:22.7] LS: That's a great question Cameron and the way I answer it, as I'm talking to people, as I tell them, first rule is you should never work with an investment advisor and then they look at me like what are you talking about? I say, the reason you don't want to work with an investment advisor is because a perfect investment plan, if there was such a thing, could fail for reasons that have nothing to do with investing.

A classic example is I met with a young advisor, Someone probably ran the same age as ben, it was about 20 years ago, he had three young kids and he asked me to review his financial plan and I thought the investment side looked good, I made a few suggestions. Then we did a needs analysis on his insurance and we found he was woefully under ensured, the typical couple of son without shoes.

We convince him that he should go buy a multimillion dollar declining term life insurance policy because that would meet his needs in the lowest course way as you worked and earned and saved money, invested it, you would build up assets and each year that went by that he had income and was paying for expenses.

The needs for the family would be reduced along the way. The good news was he took our advice and the bad news was sadly he was dead a year later of cancer. An investment plan clearly can fail for reasons that have nothing to do with investing. We've seen many examples of, I'll just give a few. We have a young man who gets married quickly, divorced with short time, remarries, has a large family, 30 years later he dies and the beneficiary of his retirement plan is the first wife and in the US, there's nothing you can do about it at that point.

You have a teenage son or daughter, they get in a car accident and you don't have an umbrella policy or what's called an excess liability policy. Your financial wealth gets devastated in a loss of most high net worth people I know pay high powered attorneys to draw up estate plans that do a great job of minimizing taxes but they fail often to for example fund the very trust that are

setup or they put the wrong assets in the wrong type of trust or they, while minimizing taxes, they don't fulfill the life goals for the family.

There are many issues including the last chapter of the book that relate to elder care and the risk of abuse because of cognitive decline as we age and the importance of addressing that as well. You could spend your life building up these resources and then some con artist takes that money away from you because you're not aware and don't have the cognitive skills to protect yourselves any longer. You need documents that can protect you.

[0:12:33.0] BF: I want to talk a little bit more on to the question that Cameron just asked Larry. You kind of talked about some non-investment factors that retirees may not be thinking about but in the book, one of the – I think it's the first chapter. Talks about all of the completely non-financial factors that retirees might face that they probably don't think about enough. That's things like, I mean one of the examples of the book was actually planning out what is your day going to look like in retirement.

Can you talk a little bit about some of those completely non-numbers related factors that people need to think about when they're heading into retirement?

[0:13:04.5] LS: Yeah, it's really sad that, while none of us would start a business without a business plan. So many people begin investing without an investment plan and likewise, they begin retirement without thinking through what a successful life in retirement would be. What's that ideal day look like?

What we do know is this, because people get so much of their sense of their self-worth and fulfillment in life out of their work, it's very typical, we have our social connections there, we get our intellectual stimulation there that when we retire, we lose both of those two things, which are critically important and then what that leads to is incredibly high increases and the rates of depression, it leads to incredibly high divorce rates, the fastest growing rates of divorce are in what are called the silver divorces now and the highest rate of suicides at least in the US is now among elder man retirees because they have lost the meaning in their life.

I recruited someone who I thought had written a great book, Alan Specter, *Your Retirement Quest* to help me write that chapter, to help people think about this very important issue. I would

think that most spouses would want to force their spouses to read the book. Because there's an old saying, I married you for better or worse but not for lunch. That's part of the problem why there are so many divorces after retirement is people don't know how to live together because they don't have this purpose in their lives anymore.

It's so important and that's why we made it the first chapter of our book.

[0:15:00.0] BF: Yeah, it struck me as really meaningful just because kind of like you mentioned, most people aren't thinking about that or writing about it when we're reading of retirement planning book, you don't expect to see that type of information. I thought that was extremely valuable.

Now, one of the things that, of course, there was a chapter on the book with asset allocation, which is one of the things that you're best known for. Now, we on this podcast and with our clients talk a ton about factors and products from companies like Dimensional Fund Advisors, which employ the factors obviously. Can you talk a little bit about how important exposure to those independent risk factors are?

[0:15:34.6] LS: Yeah, I think the way to best explain this is the following. This really goes to the heart of our whole investment strategy. Our basic belief based upon the evidence is that markets are highly efficient. By that we mean, well, we don't know exactly what the right price for ever stock or bond or currency or commodity is.

We believe that the market's estimate of the right price, the one it's currently quoting is most likely to be the right one. And that means that if it's to time the market or pick individual stocks are highly unlikely to succeed. When I wrote my first book in 1998, Charles Ellis had written the book called *Winning the Loser's Game* and he called active investing a loser's game because he said the following.

20% of active managers were at the time generating statistically significant alphas, outperforming risk adjusted benchmarks. With 80% underperforming. He says, I don't' like the odds of winning a game where it's 80% against me and that's pretax and active manages generate a lot more taxes. We have this game where it's possible to win the game of active management but the odds of doing so are so poor, it's not prudent to try.

I wrote a book recently called *The Incredible Shrinking Alpha,* which shows, based on the latest research that only 2% of active managers are now generating statistically significant alpha. The odds of winning that game have dramatically come down. I don't like games where the odds against me winning are all about 50 to one. That's our first premise that we should be passive investors, meaning, accepting market returns. If you believe that the markets are efficient, your second premise should be that all risky assets should have similar risk adjusted returns.

That doesn't mean similar returns but similar risk adjusted returns. Small caps are riskier than large caps, they should have higher expected returns, it's not a guarantee of course or there would be no risk even over very long periods, emerging markets are riskier than US stocks or Canadian stocks. They should have higher expected returns but once we adjust for risk, all risky assets should have similar risk adjusted returns.

Otherwise, cash would flow into the assets with higher expected returns, driving their evaluations up in future returns down and money would flow out of assets with lower expected returns on a risk adjusted basis until we reach an equilibrium are all risky assets similar expected returns. Now, what does this have to do with factors?

Factors are nothing more than unique or independent sources of risk. What most investors don't understand that they're sitting with a typical 60/40 portfolio and I'll use a US investor as an example. They're sitting, say with 60% in the S&P 500, 40% maybe an intermediate bond fund and if I ask them how much of their risk is in US equities or this market beta factor, they say 60% and I point out that that's wrong, it's almost 90% and the reason it's not 60% is that equities are far more risky than say bonds.

The volatility of stocks is about 20, the volatility of say funds into meters about five. If we do a little math, you could see 60% times 20 volatility that's 1,200 risk points, you only have five volatility and 40% bonds tat's 200, 1,400 total risk points of which 86% are in that one factor called market beta.

We think therefore, because small stocks have the same risk adjusted returns, we should allocate more to small stocks than the market, we want to add value, we want to add international stocks and we want to add as many unique sources of risk as we can identify. The

need to criteria that we established in our book, your complete guide to factor based investing. That's really key.

One last point. Why you really want to diversify, this makes a great example. I think most people would be shocked to hear these statistics. We have had at least three periods of at least 13 years where us stocks, meaning, market beta underperforms totally riskless one-month treasury bills, the longest was 15 years from 1929 to 1943. We also had 1969 through 1982.

That's 14 years and 2000 to 2012, all three periods, one month T bills, outperformed US stocks and very importantly in each of those periods, there was a significant and sizeable size premium and then even more significant and larger value premium. Diversifying across those factors led to stronger portfolios and the last thing which is covered in my book, which I recommend reducing the risk of black swans because small and value stocks have higher expected returns than the market, you can own less equity risk overall and more save bonds because the equities you own are – have higher expected returns and what that does is it really pulls in the left tail of the potential dispersions.

Reducing the losses and years like '08 because while still bonds have now correlation to equities. In bad years like '08, save bonds tend to go up in flight to quality that correlation turns negative. In '08, a high quality bond fund US was up 10 or 12% and so you are owning less equities, which dropped sharply so your losses were less on that portion.

You own a lot more safe bonds and that went up so our clients experienced far less losses in '08 than they would have if they owned a typical market light portfolio.

[0:22:49.3] CP: There's a question I've been dying to ask you for a while because as Ben mentioned, we talk about factors quite a bit on this show and we got lots of listener questions on factors.

Is there ever a situation that you can think of where you are better off without exposure to factors in your portfolio?

[0:23:05.0] LS: Here is the way I would answer that question. I think there are a very small group of people who would be better off. It's those people who can outlive with these what I call

dreaded disease known as tracking error regret. So once you decide to diversify a portfolio adding these other factors of small in value and international assets. In our case we had exposure to other sources of risk like reinsurance and consumer and small business lending.

So we want as many of these unique sources of risk as we can identify. Once you add those factors, you are not going to look like the market and that means that you must accept the fact that they're going to be long periods of underperformance regardless of which asset class or factor you're in. So I mentioned in the prior answer that we had three periods where US market beta was negative of at least 13 years. In the last 10 years, we have seen US lodge value premium and small value be negative.

On the other hand, the value premium was positive in international markets but emerging markets and developed international markets have really led the US. So you are going to have to live through these long periods but people forget that these things reverse and they only remember their most recent periods. So as a reminder, I'll point out so we can look back at 2003 through 2007, the prior five years before we went through these period where international and developed markets did very poorly.

During that period, the S&P was up about 83% so it had a great run but developed markets, the eFI index, Europe, Australia, Asia and the far east, they were up about double and as an example, emerging markets will up much more but the DFA emerging market value fund, which I am was up 545%. Now no one complains about tracking error when it's positive but we all complain or tend to when it's negative. So if you can't accept the fact that your portfolio is going to go through these periods possibly long ones.

Where it will underperform then you should look like the market. Now that subject they knew the much more risk in my opinion, first of all you have to hold a lot more equity risk to achieve the same goal and the second problem is you may be unlocking and that you have all of your assets concentrated on market beta just when you retire and your portfolio gets devastated and just think of what is happened to Japanese investors who are worried about tracking error.

And didn't want to own international stocks starting in 1990, they suffered greatly. Whether you are a Canadian investor or a US investor, you have to admit there's at least the possibility that your home country could be the next Japan.

[0:26:29.6] BF: Great answer Larry. One of the things that we are talking about before we started recording the show was that the comment that Cameron and I hear every now and then that says, "Well I can't wait for the factors to deliver the positive expected returns. I can't wait 10 years for small cap to get me the out performance that I expect it to over the long term."

Is there any merit other than tracking errors, is there any merit to avoiding factors because you can't wait for them to deliver?

[0:26:53.9] LS: No, it's exactly backwards here. What people fail to understand because they are unaware of the evidences that any one factor can go through very long periods of underperformance and that's the point we make in my book, *Your Complete Guide to Factor Based Investing.* we have a table that shows the odds of each factor having negative performance. Even the US, we estimate US stocks. There is a 3% probability that it could underperform totally risk less treasury bills over 20 year periods.

And as I mentioned, we've had three 13 year periods where US stocks have underperformed TiVo so that can happen to one factor. If that's true, why would you want to run the risk that your portfolio is totally concentrated? Virtually all of your eggs are in that one basket. That makes absolutely no sense to me at all. In fact the shorter your horizon the more likely it is you can underperform by very large amounts and I'll give you one great example.

From 2000 to 2002, the S&P 500 lost about 40%. Our equity portfolio, which is much more tilted to small and value and international did lose money during that period but our model portfolio like I have that you see in my books only lost about 6%. So what if you retired and you were sitting with that period, you didn't have the ability to wait out and get the better returns in the long term, your portfolio crashes because you retire in 2000 you are now withdrawing from that portfolio and you can't recover from those loses with money that is already spent.

People get this backwards, actually the shorter your horizon the more important the diversification it becomes.

[0:29:02.1] BF: So there is a stat in your book Larry that estimates and I quote, "70% of estates loss their assets and family harmony following the transition of the estate."

So what should families be thinking about to avoid this situation?

[0:29:16.4] LS: Yeah, it is kind of interesting because this is a phenomenon that's global. There is an old saying literally in over a 100 languages that we go from shirt sleeves to wealth to shirt sleeves again in three generations. So the first generation makes it, the second generation spends it and the third generation it's already gone and they lose it and that's because the first generation that creates the wealth doesn't prepare the second generation properly.

To have the proper view of the value of money and earning it and what that means, passing on the values that you had when you were young and with charitable intent teaching your family and children how to manage and invest their money properly. So I will just use my own personal example. I grew up my first few years sleeping in the kitchen in an apartment in the Bronx. We weren't poor and that we had enough to eat and no one starved.

My wife grew up even in less favorable circumstances and when I had a successful career and eventually helped built the company it got sold, we tried to instill those kinds of values and appreciation of money for our kids. So we didn't allow them to go out and buy or we didn't buy for them a $150 pair of jeans. My wife taught them to shop at Target and wait for sales and things like we didn't give them pony lessons, all our week couldn't have afforded it.

And although I could have bought a new car every three years, I did want to enjoy the benefits of the work that I put in and reap the rewards so I bought myself a nice Lexus 430 but my car is now 14 years old and we live in the same beautiful home that we have lived in for 31 years even though I could have upgraded. So we wanted to instill those values and that failure to do those things and educate your children and have those very important discussions.

Unfortunately, in most societies money is sadly a taboo topic. It is never discussed and so we have a chapter in the book on the importance of preparing your heirs.

[0:31:42.8] BF: Yeah, definitely something that does not get thought about enough. Maybe with extremely wealthy families getting good advice with that but I think in general, families with wealth but not substantial wealth often don't think about that kind of stuff.

[0:31:54.3] LS: Yeah and I think that is one of the areas where a good financial advisor can provide help. We don't think of it that way, I am sure most of our investors out there don't think of an advisor in that way. But that is one the things we talk to people about is how do you prepare your heirs, educate them. We hold training classes for kids to teach them about money. We help them write and there is a sample family wealth mission statement in the book as well.

[0:32:26.0] BF: Okay, so up to now we have been asking questions related to your most recent book Larry. We've got a handful more questions related to the other work that you've done over the year, of which there is obviously a ton so here we go.

One of the most common questions that Cameron and I get because of our use of the factors in client portfolios as you do the same, the question that we get is, "How much underperformance can a factor have before we stop following that research?"

Like if Size underperforms for 10 years at what point do you say, "Okay, we're going to keep it, we're not going to maintain exposure to Size anymore?"

[0:32:58.3] LS: Well I think there's a fairly simple answer to that question. The length of the period is really irrelevant. It may cause you to question your decision but in my book, *Your Complete Guide to Factor Based Investing*, which was co-authored with Andy Berkin, we established five rules before we'll invest in a factor. So number one is that we have to have very long term evidence that the factor has delivered a premium across different economic cycles, different regimes.

So for example, in the US we have data going now back over 90 years. We want to make sure that in rule number two, we have evidence that it's pervasive. So the factor delivers across industries, sectors, countries, regions even asset classes where it is appropriate. So for example, value is buying what is cheap and avoiding what is expensive and that works whether you are dealing in stocks, bonds, commodities or currencies.

We want to see evidence of robustness and by that I mean it holds up to various definitions. So for example, it doesn't matter whether you look at price to book ratios or price to earnings, cash flow, IBEDA, it doesn't matter. We get in a value premium in stocks. In momentum's case it

doesn't matter whether the formation period is three months, six months, one year or two years and what the holding period is, it holds up to various definitions.

All these things reduce the risk that what we found was nothing more than a random outcome, a result of data mining. The fourth thing is that premium has to show that it survives implementation. So if my microcap stocks delivered a 4% premium but it costs you 5% to capture it then we have no interest in investing and lastly, it has to have logical risk base or behavioral based explanations for why we think it should persist.

So in the case of stocks for example, I would hope US investors or investors around the globe did not give up on investing in US stocks after any of those three 13 or longer periods where stocks underperform market beta because there is a logical risk based explanation and there is market beta premiums all around the globe but here's the interesting point Ben, if you look at those three periods they total 42 years.

Now we only have 92 years or so of data. That's 42 out of 92 of accumulative periods of negative performance. Hopefully, people didn't give up because then they missed out on the 10% return that stocks provided. In the factor book, we provide all of the explanations and the evidence for the size, value, profitability, premium and the other ones that your firm and my firm is invested. So unless you have reason to believe that those, the evidence has changed with the risk based stories then you should not give up.

And to me for example, small caps are simple explanations. The risk here more costly to trade, less liquid. You should have a premium for that.

[0:36:35.3] CP: So Larry, much of what we talked about with you today is about portfolio structure. You know tilting towards factors and whatnot. In your country, certainly index funds have exploded in popularity and enormous amounts of money are flowing into companies like Vanguard and much of their story as far as I look at it is about cost.

Do you think this industry about index funds has skewed too far towards the cost story and less towards the portfolio structure story?

[0:37:06.1] LS: The way I would answer is this, costs are important but we should only look at only cost when we have something that is a pure commodity. So they are exactly identical and I would imagine Cameron that on occasion maybe with your kids, you're taking them to some trip or a soccer event or whatever your team's sports, you might stop and eat at a Subway or McDonalds but you wouldn't take your wife out for your anniversary to such a place. You would pick a nice restaurant.

So there, you wouldn't consider restaurants a pure commodity. You didn't take your wife to the cheapest restaurant. The same thing is true of even similar passively managed or index type of funds and the best example I like to give and anyone could look on Morningstar data to see the point I am making. So we would have say three similar small cap funds for US stocks, you have small value here.

You have Morningstar's small value fund, you have Dimensional Fund Advisors small value fund and you have a fund we use in the US called Bridgeway on the small value fund. Now the Vanguard fund is the lowest cost, DFA is in the middle, Bridgeway is a little higher and if you went solely by cost, we would have chosen obviously the Vanguard fund but we looked at it and we saw and I don't know the number, remember the numbers from 20 years ago.

But today, the Vanguard fund has an average market cap of somewhere in the neighborhood of about three and a half billion. The DFA fund is about half of that and the price to earnings and price to book ratios of the Vanguard fund are higher than that of DFA. So we want more exposure to these factors and trying to capture more of that premium. So the right way to think about it is to think about how much cost are you paying for a unit of exposure to premiums?

Because we looked at it that way, we made a decision to use the DFA fund 20 years ago and over that 20 year period since inception you can look at the DFA fund has outperformed the Vanguard fund. I think the latest and longest date is about 50 or 60 basis points despite the fact that it costs about 40 basis points more and today, the Bridgeway fund is even smaller, more evaluate cost of that eight basis points more but we use it for that reason.

In every single case, the DFA funds have outperformed similar funds to Vanguard since their inception and then for example emerging markets, Vanguard doesn't have a small in value fund and DFA does and the premiums there have been lodged in the area of maybe it's 3%. So

people can bite their nose off despite their face in saving maybe 20, 30 basis points in expenses and giving up two to 3% maybe in returns.

So again, what you want to look at is cost per unit of exposure to the factors and what that premium you expect is.

[0:40:37.3] CP: I totally agree Larry. I think that with the amount of attention that costs get in the media, this is sometimes a hard message to get across to investors at the end of the day.

[0:40:47.1] LS: Yeah, exactly and that is why I like to use that analogy about taking your spouse out to dinner on your anniversary. I don't think you'd get very far with that and she wouldn't appreciate going to McDonalds. So we don't treat that — and we buy cars.

We don't always buy the cheapest cars, what you are trying to do is spend money to get the most value and we, so the job of a good advisor is to choose the fund that they believe delivers the most value in the context of the overall portfolio.

[0:41:22.5] CP: So Larry, I want to finish with a question that we ask all of our guests. I have known you now for pretty close to 17 years I think and the first time I reached out to you, you agreed to come and speak to our clients because you saw that we were all in the same kind of mission together.

So clearly you've been on the mission now for decades to change how people invest and plan for their futures. How do you now define success in your own life that you had this great career behind you and I believe you're transitioning to some form of retirement?

[0:41:55.1] LS: Trying to plan that but one of the things that I counsel our clients is you don't want to retire from life and so you have to figure out as we talked earlier and about the first chapter, planning the life in retirement. I am gradually moving in that direction. I have cut my travel down as you get older, you know it becomes a little bit more tedious but the way I think about it is as the day I feel I'm going to work will be the day I retire.

I don't feel like any day I wake up I'm going to work. I love what I do, I enjoy the research, the intellectual stimulation I get from that and the writing and the fact that I know I am helping

people have a much better chance of achieving their life and financial goals. That is what our clients have told us. I've made great friends like you and Ben over the years, all over the world. I get emails pretty much every week from somebody somewhere around the world thanking me after they have read my book or my blogs and there's no greater reward than that.

Even though I will never see these people or know them but just knowing you helped. There is an old saying, it's much better to give than to receive. The giver receives much more and I feel blessed that I have been able to make such great friends like the team at PWL and many others around the world and to help so many people and I am happily married now for 45 years, three great daughters, six great grandchildren who I have been able to help and position to have a great life.

And they are all financially secure and chosen careers that they would enjoy and didn't have to worry about making money because they knew they would inherit a lot. That gave me great comfort and one of my daughters was a school counselor, another is a Pilates instructor who has now been able to open her own studio because she's had some help on that front and my third daughter is an event planner and they're all happily married and have kids and don't have to worry about putting food on the table.

So I define success by those things, my family and my kids and maybe most importantly, the biggest sign of success is that I actually have a conference room in Ottawa with my name on it.

[0:44:24.6] BF: We say your name every single day Larry. I mean you had such an impact, we did name a meeting room after you. So every day we mention it to everyone who enters in this office many times.

[0:44:32.8] LS: Well that meant a lot to me I assure you.

[0:44:35.8] CP: Well you have had a huge impact on us and I think back to the first time I reached out and you remember what the deal was for you to come and speak to clients?

[0:44:43.4] LS: Yeah, that you had to take me out and we did some great white water rafting.

[0:44:47.4] CP: That's right, so that was the deal. You weren't in it for the money. I think we made a donation to a hospital in your name but you weren't in it for the money at all and you loved it and we appreciate everything you've done for us over the past 16, 17 years.

[0:44:59.1] LS: It's been my pleasure working with you. I know we are all in this and our mission when you walk into our office it says, "Do the right thing." We don't get paid by anybody except our clients, there is no commissions. The only thing we sell is advice.

[0:45:15.1] BF: All right Larry, this has been fantastic and you are truly a legend in the space so it really is a pleasure to speak with you on the podcast.

[0:45:21.4] LS: It's been my pleasure.

[END]