Episode #166: How to Liberate Clients from Wall Street Mediocrity

Video Transcription

Welcome to all of our viewers to another episode of 'Money Script Monday.' My name is Robert Reaburn. And today, what we're going to be going over is how to liberate clients from Wall Street mediocrity. What does that mean? We know that many clients we deal with daily feel like their underlying investments just aren't delivering enough growth. They look at the stock market, they look at individual investments, talk to their friends, and they just see their accounts treading water. They feel like they're losing out on an opportunity. Often, it's about a lot of the things that we're not doing that lead to these types of results. So today, we're going to be talking about A, what the problem is, why clients aren't growing. And then lastly, what is that growth solution?

The one thing that makes us different is that we have a strict focus on absolute growth. Why do we invest at the end of the day? We invest to grow our money, no ifs and buts. If you want to preserve your money and have it not move at all, well, at the end of the day, there are great solutions on the life insurance side, the annuity side, or if you want to get very conservative and stay liquid, there are a lot of money market options that are available. But for investments, our objective is clear, and that is to grow your money. So, what's going on in the industry today that's causing so much pain?

The first thing is there's no growth. We know that most clients realize about half of the underlying market growth over the long term. In other words, they're in the market. They're in a passive fund, maybe an active fund. And over time, they're realizing far less growth than the stock market's delivering. This is painful. They feel like they're missing out because they're doing all the right things, yet they're not growing. The second is that 85% of mutual funds out there are underperforming and that when you're paying a 1% fee or a 1.2% fee, this is quite frankly unacceptable. Thirdly, clients feel lost and confused, and they don't know what's going on with their accounts. They see that they've invested in something, but they don't know what those products are invested in. They have no one to reach out and contact.

Their advisors also feel lost because they invest their client's money into mutual funds, private equity funds, index funds, but they don't know what's going on below the surface. And when you don't know what's going on with your money, you get emotional. And when you get emotional, that behavioral aspect that impedes a lot of investment returns comes into focus, and clients end up getting scared, reacting, selling prematurely, which leads to guess what? Half of the potential returns that we

can realize in the market. So why is this happening? We know that most investment products out there lose focus of their underlying objective, which is, remember what we said at the beginning, to grow. That's the only reason why you invest your money.

If I give $10 to an investment fund, over time, I want that $10 to grow to $15 and that $15 to grow to $20. If that's not happening, what's the point? And here at LifePro, we have one objective, to grow your money. That's what we try to do day in and day out—no ifs or buts. We try to grow your money. The second point is that many mutual funds out there are what we call closet index funds. They say they're active. They say they're different, but at the end of the day, they're 98% similar to the underlying index. In other words, if the S&P 500 goes up 1%, guess what? Your mutual fund goes up 1%.

If the S&P 500 goes down 1%, guess what? You're going down 1%. What's the point in paying an extra 90 basis points versus a passive Vanguard fund if your investment is doing the exact same thing? It's important to be different, it's important to perform, and it's important to communicate and execute. And you're not getting that with 85% of the mutual funds out there. Thirdly, there's no investment training or coaching. These mutual fund companies are arrogant. They go up to the advisor and their clients, and they say, "Buy our products." Look at the performance. You're capturing an additional 1% over the long term.

We know dollar for dollar that means very little. And then once you layer the fees on, you're back to those index-like levels of returns. Ut's important to have that coaching layer on top. We can A, understand what we're invested in, and B, be able to coach clients through both the ups of the market and, of course, those periods of volatility where clients can get scared. Most mutual fund companies out there do not provide that coaching layer, that swing coach, to make sure that clients understand how to navigate all points in the market, what's noise, what's substance, and when to take action.

How do we get to a point where we're growing our money over and above what's available in an index product? We need to have a strict focus on growth, and that's where most mutual funds and index investment funds fail. Let's take a look at a lot of the Vanguard funds out there. That's great. And passive investment funds are fantastic because they coach clients who are just beginning to invest their money on the ups and downs of the market and what to reasonably expect from the stock market, and what they should ignore. It's a great way to begin investing. But once you understand that most of what takes place over the short term is noise, we can graduate to a more advanced level of investing.

We know in the S&P 500 today that close to 20% of companies in the S&P 500 are in secular decline. They've got poor balance sheets, high levels of debt, little to no earnings. In fact, in some cases, highly negative earnings growth. So why are we willingly giving our money to these companies that don't deserve it? We shouldn't. There's a better way. And there's a way to invest where we can say to ourselves, "You know what? This company deserves my money. This company does not." Let's focus on the healthy areas of the market. Within each area of the market, let's focus on those companies that are leading positive, disruptive change with clean balance sheets, high sales growth rate, and excellent free cash flow conversion rates that are going to deliver equity value over and above what the overall market is going to be able to deliver to us over the long term.

Lastly, we want to focus on only high-conviction ideas. A lot is talked about diversification. Yes, we need to diversify. We should not have all of our money in one stock. But if we have our money in 200 stocks, all we are doing is diversifying our good ideas. And that doesn't make any sense either. As a portfolio manager, you know, I spend north of 12 hours a day going through these companies. Right now, we're invested in between 20 and 25 different companies. And that takes a lot of time. A lot of these mutual funds own north of 100 companies. There is no way one: you have the time to know what you're invested in when you have 100 different companies in the mutual fund you manage. And two, think about this. When you buy that 100th stock in your portfolio, that's your 100th best idea. How good of an idea is that really to your portfolio? We want to make sure that we're staying focused on only our high-conviction ideas and, over time, filtering out any mistakes we may make along the way.

And then this time, this is lastly for sure, is that we want to provide coaching. We do every week weekly because we write a market update to all of our advisors and all of our clients. B, we go through that time-based asset allocation approach. Where does it make sense to take market risk? Where does it make sense to take an active approach to investing? In other words, do you have enough time that if we're wrong on the market and you go down that you can recover your initial investment and make money? And then, of course, we want to make sure you have an emergency fund just in case we have a period like March, where the economy literally comes to a halt. You need to have access to emergency liquidity.

Suppose we protect your short-term interests while setting aside money to grow for the long term. In that case, we're able to improve that behavioral aspect to investing, which ultimately causes this first point back on the problem of no growth, which is that behavioral roadblock to returns. It's so important to take care of the psychological component of investing. So, if we can ultimately invest, coach, and stay focused, we believe that we can deliver returns over the long run, at least position client portfolios for the potential to return, over and above what is available

in an index product. And that's part of the reason why year to date, in 2020, while the stock market is up around 6%to 7% net of fees, we are up 90.1% net of fees.

We're not doing anything esoteric. We're simply buying good companies that are on the verge of going from good to great with solid balance sheets and clean and simple business models. And we don't overtrade those accounts. Last year, we were up 41.2% in a largely positive market. And the year before that, we were down just over 5% versus 6% for the market. During those downturns, our companies have held up well. But it's the coaching that we provide during those downturns that ultimately has allowed our clients not to get scared, trust us, and stick to the process to ultimately realize those returns.

If we can put those types of steps into place, we believe that we can deliver a ton of value for you and your family, not just today but for years to come, and realize the full potential that the stock market offers all of us to grow our wealth. Thank you again for all of our existing clients and new prospects and people considering us and, of course, our advisors. Have a wonderful day, and thank you.