MAM 189: Tim & Tom Answer Your Questions - Transcript

Tom Mullooly: Welcome back to the Mullooly Asset Management podcast. This is episode number 189, 189. My name is Tom Mullooly. I am the CEO and President of Mullooly Asset Management, and with me this afternoon-

Tim Mullooly: Is Tim Mullooly. I am an Investment Advisor here at Mullooly Asset Management. Today, we're gonna continue to answer some questions that we get on a weekly basis. We've been doing this for a couple podcasts now, and it seems to be working out. We're getting some good feedback from people, so we're going to keep rolling with it.

Tom Mullooly: Yeah. What we're finding is that when people take the time to write these questions in ... they send them in to a website ... and we can view them and pick out ones that we think are worth talking about or worth discussing on this podcast. What we're finding is that some of our listeners have similar questions or off-shoots on the same topic, so if you hear a topic that interests you or you have a question about, definitely get in touch with us and we'd be happy to feature your question or discuss your topic on a future podcast. Tim, why don't we jump right in with some of the questions that we've got today.

Tim Mullooly: Sure, let's get started. First up, which bond ETF should I invest?

Tom Mullooly: Oh, that's easy. The one that goes up the most.

Tim Mullooly: In a perfect world, yeah.

Tom Mullooly: Can we predict the future?

Tim Mullooly: Unfortunately, not yet.

Tom Mullooly: No. So we can't predict the future. We can't tell you which one is going to be the best. It's a tough question for advisors to answer, because we don't know who's asking the question.

Tim Mullooly: Right. Everyone's situation is different, so to properly answer this question we would need to have this person come in, and learn a little bit about them and their situation, and what they need and what they're looking for from these types of investments. Otherwise, without that information, it's kind of impossible to answer a question like this.

Tom Mullooly: It's like asking, "What do you like better, chocolate or vanilla? What's better, chocolate or vanilla?" Well, it really depends on your taste.

Tim Mullooly: Well, do you like chocolate or vanilla?

Tom Mullooly: Right. So if you go to episode 51 of our videos, you're going to see that I got into a discussion about "know your client."

Tim Mullooly: Right.

Tom Mullooly: And it's hard for an advisor to make a blanket recommendation, that "This bond ETF is better than that bond ETF." We can't make a suggestion or a recommendation to someone until we know more about your situation. It's not like we're trying to dodge the answer. The answer is there's lots of good bond ETFs out there. We have to find what your situation's about, and then determine which is best for you.

Tim Mullooly: Right.

Tom Mullooly: And a lot of times, it's not a decision about good or good versus bad. It's more a question of better versus best.

Tim Mullooly: Right. "Which one fits best?"

Tim Mullooly: There are going to be a handful of ETFs out there that would fit well, but there's probably one or two that fit the best.

Tom Mullooly: The question went on ... you know, we get a little more detail with these ... and they talked about, "Well, one fund has a slightly higher SEC yield. This one has different premiums or discounts. Which one's better?"

Tim Mullooly: They actually ask, "Which one would you pick for your portfolio?" which is the one wrong question to ask, because-

Tom Mullooly: Yeah, why do you care what I would buy for my account?

Tim Mullooly: ... it doesn't matter. My portfolio is going to be different than yours.

Tom Mullooly: Right, yeah.

Tim Mullooly: Have to ask the right questions.

Tom Mullooly: That's a big part of this. It's important to understand that there's a lot of different investments out there, and when you're talking about bond ETFs, you need to remember that bonds, unlike stocks, trade by appointment. There is no listed market ... well, there's a very small listed market for bonds. Very few bonds actually get listed, and the prices will vary even when the listed bonds trade. So bonds trade by appointment. What that means is when you want to sell a bond that is in your account, you have to call your broker, and your broker will shop around ... he'll call around and try and get bids ... well, offers ... to buy your bond from you and sell somewhere else. Another bond broker is not going to take your bond, unless they know that they can turn around and sell it. Bonds trade by appointment. Don't ever forget that. That's really, very important. Probably not the answer that this person was looking for, but it did give us an opportunity to talk about bonds. Cool.

Tim Mullooly: Yeah. Moving on to question number two: How can I recover from losses in my IRA?

Tom Mullooly: The answer is, if you're trying to figure out how you can take losses off your taxes ... you know, if you lose money inside your IRA, you can't even write that stuff off.

Tom Mullooly: You can't. You're not permitted to do that. So the question went on to say, "I put $2,000 into an IRA. But between the fees and bad investment decisions, it's been losing money and its value is currently below the initial deposit. Is there anything I can do to minimize or regain my loss?" Well, yeah.

Tim Mullooly: It's kind of an obvious answer ... Well, in my opinion it is. But, obviously, not for this person. You can invest in different, better choices that ... or hope that your investments go up in value.

Tom Mullooly: And give it time.

Tim Mullooly: Right.

Tom Mullooly: Not everything works right from the get-go. I know, after 30 years, a lot of times I'll finally take the plunge and buy something for a client, only to watch it go down the next five days in a row ... or sometimes the next month or two it just goes down and doesn't seem like it's going to recover. So sometimes it's patience. Asset classes fall in and out of favor all the time. I don't know how long this person has had money sitting in an IRA, but don't compound a problem by jumping off one horse in the race and hopping on to another. My point is, moving your retirement account to another broker, or completely ripping up the script and doing something totally different with that money, could just compound your costs that you're trying to get out from under. You need to really think clearly about this.

Tim Mullooly: One detail in this question that points towards having patience and a more long-term mindset is that the question asker said, "I'm trying to invest today to help my son in the future." So if this money is for your son in the future, it sounds like you have a relatively longer time horizon to let these things work.

Tom Mullooly: Right.

Tim Mullooly: So over time, your odds of success go up. But if you continually rip up the script, and try and flip in and out ... try and find something that's better working this week as opposed to last week ... it's going to be tough.

Tom Mullooly: Now, if you made a mistake and you got into something that's got comparably higher fees than what you're finding elsewhere, then you may want to re-examine what your next step would be. But if the fees are low ... they may have been paid already ... But if the fees are low and you're in something that just seems to be out of favor right now, you're going to need to re-examine why you're doing this. And Tim raised a very good point, this is money that's for someone in the future, so our suggestion is patience. But again, we're not making investment recommendations or giving investment advice.

Tim Mullooly: Right.

Tom Mullooly: The next question is: Where should we invest a profit sharing distribution to minimize the taxes?

Tim Mullooly: When we get questions like this, it kind of makes me shake my head a little bit, because everyone's looking to minimize taxes. In today's world, it's tough to do. You're going to have to pay your fair share. That's just the way things work.

Tom Mullooly: Well, two things come to mind when I hear these kind of questions. A lot of people don't even realize this, but when I got started in the business you didn't need a Social Security number to open an account. Just think about that for a moment. So we had a lot of wealthy people who were opening up brokerage accounts without Social Security numbers, and they were buying tax-free bonds, and they would get the bonds delivered to their home address. This is when, before book entry bonds ... so you would actually get what they used to call "bearer bonds" ... you would get the bond delivered to your home address. And you would actually clip the coupon, the actual coupon, go down to the bank, present the coupon, get your interest, unreported, and walk out of the bank.

Tim Mullooly: That's amazing.

Tom Mullooly: That is truly tax-free.

Tim Mullooly: Right.

Tom Mullooly: So that was-

Tim Mullooly: You can't find that anymore-

Tom Mullooly: ... a very long time ago. Right now, in 2017, everything's tracked.

Tim Mullooly: Everything.

Tom Mullooly: We can pick up people like speeding on the roads now because there's cameras everywhere. Everything is tracked, and so the idea of trying to skirt paying taxes just doesn't really work.

Tim Mullooly: You're not going to be able to pull a fast one on the government anymore.

Tom Mullooly: Yeah.

Tim Mullooly: It's just not going to happen.

Tom Mullooly: One of the best problems to have ... We like to remind our clients, one of the best problems to have is paying a lot of money in taxes. It's a nice problem to have. That means you made a lot of money.

Tim Mullooly: Exactly.

Tom Mullooly: I don't know. I'm okay with paying taxes.

Tim Mullooly: Yeah. If you don't make a lot of money, you're not going to pay that much in taxes compared to other people-

Tom Mullooly: Right.

Tim Mullooly: ... so if you're paying a lot in taxes, it means you have a lot of money, which is not a bad thing.

Tom Mullooly: Yeah. All right. The next question is: Should I start managing my own retirement account? Let me give you a little more information on this. "I currently contribute to a company 401(k) through Fidelity and I have a Roth IRA at Vanguard. I want to start managing both of them by myself."

Tim Mullooly: I'm kind of confused by the question, because if ... I'm assuming this person doesn't have an advisor, which is why they're asking this question. So if they don't have an advisor and they haven't been managing it themselves, then who is managing it? Then, the obvious ... or the apparent answer to that question ... would be yes, you should start managing it, because someone should.

Tom Mullooly: Yeah. We're going to assume that it's un-managed right now.

Tim Mullooly: Which is not a good thing.

Tom Mullooly: The money could be sitting in the money market. We don't know. We don't. There's lots of free information online that can lead you in the right or direction. You can talk to an advisor. I think there's plenty of online advisors and plenty of human advisors that will at least point you in the right direction, and maybe it's something that they'll do for free just in order to help people. But to get someone going and pointed in the right direction sometimes is really just a phone call, and someone will help you out.

Tim Mullooly: A lot of 401(k) accounts, if it's through your job, they should have some sort of support to help you get going as well.

Tom Mullooly: You know, Tim raises a good point. If you are faced with questions about your retirement plan at work, you can normally pick up the phone ... sometimes they even chat through the website, where you can go in and ask questions. One of the things that we hear over, and over, and over is "I talked to these people who manage my retirement account, but they can never tell me that this fund is better than that fund." They will never tell you that, because that is the process of giving you advice. They're prohibited, in most cases, from providing investment advice as administrator on the plan. So they can provide you with information so that you can make a better decision, but they'll never lead you to say, "Oh, put all your money into that fund. It's doing great."

Tim Mullooly: Right. Yes, that's more what I meant. They can give you the information to get started so you can make your own decisions. They're not going to tell you which funds to invest in, but they can help you get the ball rolling so that you can manage it yourself.

Tom Mullooly: The next question is: Can I move funds from a retirement account, from a former employer, into an individual 401(k)? Now, a couple of things jump out at us when we read this question. So they've got a retirement account with a former employer and they're asking about an individual 401(k), so I have to believe that if they have an individual 401(k) that they're self-employed. But, as we read more information from the person posing the question, that may not be the case. So maybe what they're referring to is an IRA.

Tim Mullooly: I think that's more likely the case.

Tom Mullooly: Here's the summary of the situation. "I have a retirement account with a former employer that I made contributions to. Based on the plans restrictions, I'm not allowed to withdraw any of the money I contributed until the age of 55, but I need the money now. Can I convert my savings plan to an individual 401(k) since I'm no longer working for the company?"

Tim Mullooly: To the answer the question, I think the answer is yes, you can ... If it's going to an IRA, you can roll a former retirement plan into an IRA. But I think the one of the other things that pop out in this question is that this person needs the money now.

Tom Mullooly: Right.

Tim Mullooly: Which brings up a-

Tom Mullooly: Which is a huge red flag.

Tim Mullooly: Right.

Tim Mullooly: A financial planning red flag or a cash flow red flag. There's more underlying issues than just the transaction of moving one account to another account.

Tom Mullooly: Right. It also sounds ... This is all the information that we have, but it sounds that ... I keep going back to that phrase, "I'm not allowed to withdraw any of the money I contributed until the age of 55." So this is a person who is not 55 ... not yet 55. But they need the money now. So we have done several podcasts, and videos, and blog posts, about putting money away for retirement. It's very important to put money away for retirement, but if you're putting money away for retirement instead of building your safety net or paying down your debts, you really need to re-examine your priorities.

Tim Mullooly: That was one of the good pieces of feedback we got from last week's podcast. Someone wrote in and said they listened to the podcast, and it made them realize, sometimes we think about our future selves that we forget about-

Tom Mullooly: Present selves-

Tim Mullooly: ... the present self. Yeah. So you have to make sure that you're okay now.

Tom Mullooly: That's really important. Let's just cover or unpack some of this question. We're going to go on the assumption that they don't have an individual 401(k), they have an individual retirement account, so they're not permitted to withdraw any of the money until the age of 55. Okay. Let's talk about that. They obviously called the plan, talked to people in the call center and said, "Hey, I need this money now. Can I make a withdrawal?" Sometimes what I have learned in listening to people is that they don't use the proper lingo, and it's not their fault. They just don't know. I think sometimes if the call center people would listen to what their callers are saying, they would be able to help them more. So someone calls up and says, "I need to make a withdrawal from my retirement account, but I'm not yet 55." You can't do that.

Well, we know that it's possible because they don't work there anymore. So they are 100% eligible to roll this money into an IRA, and then they can take their IRA withdrawals from it. Yes, it's going to be taxable. Yes, if you're under the age of 59, there's going to be a 10% on top of it. Yes, it's a very expensive way to get money. But, it's not impossible. Translation, that's a double negative. It's possible. You can do this. And it's a shame that sometimes people get bad information when they call a call center, only because they're trying to speak the lingo of the business and they're using the wrong terminology, and we don't have ... I hate to characterize people, but we don't have patient people who are willing to listen to what someone's trying to explain. Because I think if this person had better explained their situation, they'd be in a better position to help them. So this is a person who really needs help. They need money. And they're being told that they can't touch this money, and that's not true.

Tim Mullooly: It's not. Yeah, it's not true. Hopefully, people in call centers will listen to this and ... Sometimes it's not the actual words that the people are saying. You need to dig a little deeper and try and find out what they actually need, because a lot of times these people don't know the exact terminology or they might use the wrong word, which ... sometimes, using the wrong word changes the answer.

Tom Mullooly: Sure it does.

Tim Mullooly: So it's a confusing topic for some people who don't know the proper terminology.

Tom Mullooly: I'm going to just go out on a limb, and if there's listeners out there and they find themselves in a similar situation, call an advisor. Call us. Call Dave Ramsey. Call an advisor, someone who will listen to your story and be able to tell you, "Yes, you can do that," or, "No, you really can't do that. But here are some other options that you may want to consider." There are ways to do this. Unfortunately, I think very few people today have actually read the plan details. That's a big deal. There's people out there telling you, "Yes, you can do this," or, "No, you can't do this." They haven't even read the plan. Talk to an advisor who knows what they're talking about about when it comes to retirement plans, and I hope that this person gets help because it seems like they really ... they need it.

Tim Mullooly: Hopefully.

Tom Mullooly: Yeah.

Tim Mullooly: So we got a couple more questions left for this episode. Moving on. The question is: How should I invest my 401(k) savings after I retire?

Tom Mullooly: That's a good question. There's a lot of times where people say, "Hey, I'm not going to be working any longer," and then there's people who say, "I'm going to retire." So what we have tried to educate our clients, and hopefully help you as well, our listeners, is you should refer to these phases in your life as accumulation, and de-cumulation phase or distribution phase. So while you're in the accumulation phase, you should be focused on growing that pile as best as possible, hopefully with a level of risk that you can sleep with. When it comes to distribution, the distribution phase of life, everything changes.

Tim Mullooly: Totally.

Tom Mullooly: Yeah. We have clients that are civil service employees. They work for a municipal government, and when they ... they can retire very early. They can retire in their early 50s, sometimes in their late 40s. And they say, "Hey, Tom. I'm going to retire next year. Don't you think we should be getting more conservative with our investments?"

Tim Mullooly: There's a big difference between retiring and starting to take money out of the account-

Tom Mullooly: Huge difference-

Tim Mullooly: ... in their case.

Tom Mullooly: Right. In some of these people's cases, they may not be taking money out for 15 years. There's still a long time to let that money compound. So should you reconsider your investment allocation if you're retiring? Yes. If you're retiring at a normal retirement age, you should be talking to an advisor, or at least doing your homework, to consider a reallocation. Once you begin taking distributions from your retirement account, you should definitely have a different look to your account. That was a really good question that we have gotten in. We get a lot of questions like these, and if you find yourself in a similar situation but have a different question, get in touch with us. We'd be happy to answer it. Please don't ask us for investment advice as we can't give you specific investment advice through a podcast. That's something better handled in person or on the phone. So if you have questions like that, definitely get in touch with us. Our phone number is 732-223-9000. Pretty much wraps episode 189.

Tim Mullooly: Thanks for tuning in, and we will see you on episode 190.

Tom Mullooly: 190?

Tim Mullooly: Yeah.