Ep. 227: Millennials, Minimizing Student Loans, Warren Buffett - Transcript

Tom Mullooly: Welcome to the Mullooly Asset Management Podcast. This is episode number 227. We're laughing because I said, "Oh, I think there's a TV show named 227."

Tim Mullooly: I said, "I've never heard of it."

Tom Mullooly: Because it went off the air 28 years ago, so it's a new show. It ran from 1985 to 1990 and ...

Tim Mullooly: Couple years before my time there.

Tom Mullooly: A couple of years. Anyway, I am one of your hosts, Tom Mullooly. With me today, special guest star ...

Tim Mullooly: Is Tim Mullooly.

Tom Mullooly: Hey, Tim.

Tim Mullooly: Filling in for Brendan today.

Tom Mullooly: In these podcasts, we kind of cover news of the day and questions that we get surrounding that from clients and listeners and some things of interest that we like to share. Tim, I know you've got an interesting one to kick it off with.

Tim Mullooly: Being a Millennial, whenever I see a headline about Millennials, I always like to click on it. I feel like we get generation shamed sometimes, but-

Tom Mullooly: Oh, so you know, though, that the Millennials have wrecked everything.

Tim Mullooly: We're the worst.

Tom Mullooly: You are the worst.

Tim Mullooly: Yes.

Tom Mullooly: Yeah.

Tim Mullooly: The first article that we picked out is from CNBC. The headline reads Why Millennials Are Scared of the Stock Market. Right off the bat, they say only 23% of Millennials prefer investing to cash. Those are 18-year-olds to 37-year-olds. The author claims that it might be because many Millennials were entering the market around 2007 to 2009 so they kind of got scared right off the bat and maybe that kind of ruined their beliefs of the stock market.

Tom Mullooly: Let me see if I get this straight. Three out of four people, basically, between the ages of 18 and 37 say, "I'm not putting my money in the stock market." Only a quarter of the people are investing in the market. Three out of four are putting money into cash.

Tim Mullooly: Right.

Tom Mullooly: I think the odds are pretty high that, when you're between the ages of 18 and 37, you got a couple of things going on.

Tim Mullooly: Yeah. That was another thing that crossed my mind with that topic. In between those years, you have more short-term big purchases going on in your life, and you might not have extra money to invest even though we all know having a long time horizon and using time to your advantage is one of the biggest ways to compound your returns over time, but some people don't have that ability.

Tom Mullooly: They just don't. If you look at someone who is, say, in the first couple of years of that Millennial phase, 18 to 22, they're probably racking up some debt for college, and then from 22 to 32, they're paying that off.

Tim Mullooly: Yeah. They're digging themselves out of the whole that they dug in the first couple of years.

Tom Mullooly: That's a good thing.

Tim Mullooly: Yeah, definitely. I think paying off student loan debt ... You got to rank your priorities there when you first get a job and start making money. One thing that I did want to point out from that article is that they mentioned that Generation X, their percentage ... Millennials were 23%. Generation X was 33%, so it's not all that much better.

Tom Mullooly: No.

Tim Mullooly: The Boomers, Baby Boomers, were 38%.

Tom Mullooly: Is that right?

Tim Mullooly: Yeah.

Tom Mullooly: The ones that are retiring now like every four minutes or something like that.

Tim Mullooly: Right. From the same study, they said Generation X is 33%, Boomers 38%, and while Millennials ... that is a little bit lower at 23%, it's still not a good number, in my opinion.

Tom Mullooly: It's perfectly explainable for people who probably have college debt, who probably have car loans, who probably are looking to buy a place, who are probably starting a family.

Tim Mullooly: Yeah. I think that everyone in different generations has different reasons why they might prefer cash over investing. I just think that, if you put Millennials in the headline of your article, people are going to read it and say, "Those darn kids. They don't know anything."

Tom Mullooly: Sure. Yeah. They've wrecked everything.

Tim Mullooly: Yeah.

Tom Mullooly: Plus, the other thing that I don't think ever gets mentioned is, if you're a Millennial, and you're 25 or you're 30, you probably have a parent, at least one, who's 55 or maybe 60. They went through this financial reset, crash, depression, whatever you want to call it, 10 years ago when they were 45 to 50.

Now, those people, they may have lost their home. They may have lost the job in their career that they never got back, and they had to change directions. Look ahead at your parents and say, "Wow, do I really want to follow that path?"

Tim Mullooly: Their parents had a lot more to lose than they did.

Tom Mullooly: Yeah.

Tim Mullooly: I don't know if claiming that just entering the investing world right around the 2008 period is enough to explain away that low number for Millennials, but if that is why you're afraid of the market, I mean just look at any other number of historical returns for the market. Over time, it goes up.

Tom Mullooly: In general, I think the problem is people don't feel like they have enough to put at risk, so ... and I think, at the present time, in 2018, the safety number that people need to have before they can say, "I'm willing to put this money at risk in the market," is going to be bigger than it was 10 or 15 years ago.

Tim Mullooly: Right. They need to feel more comfortable with what they have in the bank before they're willing to put it back at risk.

Tom Mullooly: Right. Yeah.

Tim Mullooly: Yeah.

Tom Mullooly: I know that different circumstances, completely different era, but my father was born in 1925, your grandfather. Okay, he grew up through The Depression. He was a very young guy but grew up through The Depression, was in World War II, so his parents made it crystal clear that there is no money for food. There's nothing. That's what he grew up with. I remember conversations that I had with him in the '70s when I would talk about there's a lot more room for debt, that people can take on more debt, they have good incomes, and interest rates are low. He said, "Why would you ever want to do that?"

I mean he just grew up in a culture that debt is bad, and we've come full circle now back to 100 years ago where it was okay to go on leverage. It was okay to carry debt. As long as you carried the debt and you made the payments, you were good. It's amazing how our culture has gone full circle in 100 years, and I always worry, in the back of my mind, that there's going to be some kind of event or decade like they had in the 1930s where it was a giant reset button.

Tim Mullooly: We'll see.

Tom Mullooly: Yeah.

Tim Mullooly: It'll be kind of hard to know we're in it until-

Tom Mullooly: Until you're in it.

Tim Mullooly: Until we've been in it for a while.

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Tim Mullooly: Another article that I picked out from Forbes talks about how to help your children minimize future student loan debt. Tying back in to the last article, if you have less student loan debt, they might have more money to put into the market.

Tom Mullooly: There's a lot of articles like this out there, but I actually really like this one because they talked about concrete steps that you can ... as a parent that you can have conversations with your student about things that they can do to kind of cut things down.

Tim Mullooly: Right. It started out outline the different ages as your child gets older and they approach college. It goes from, when they're very young, on the parents to start saving, maybe use a 529 plan, to as they get into high school, the tip that they had there was maybe see if they could take some AP classes or take the AP tests to get college credits that could transfer over so they don't have to have as many credits when they get to college. It kind of works you through what the student could do to kind of offset some of these student loan costs. I agree. I thought it was pretty good offering concrete things that they could do along the way to try and reduce the amount of loans that they needed to take on.

Tom Mullooly: I think it's important, these kind of conversations, to not just talk about money, and saving money, and putting money in a 529, and doing things like that but to also talk, like we've just mentioned, in specific steps that parents can suggest to their kids that, "Hey, you know what? If you have good grades, and you take this AP exam, and you get into an advanced placement course, you should do it because you're going to be chopping off credits that you're ultimately going to need for your degree when you graduate."

We had a program where I went to high school, and again, this is in the 1970s, where seniors, if they qualified, could sit for ... they called them FAST classes, and it stood for something I forget but, basically, they had teachers, professors from CW Post College, it was a college back then, come in and teach these classes. They were on a completely separate track. When they finished their first year, they had, I think it was 24 or 27 credits, under their belt already done for the first year. I know, just by doubling up on some of my classes, I finished college in three years, and then I just plowed ahead and got my master's. You know what? Having these kind of conversations just makes so much good sense.

Tim Mullooly: Yeah. I think a lot of the conversations that get had with advisors and parents is about saving money, and 529 plans, and stuff like that, but there's a lot of other things that factor into the cost of college that aren't based on that. Another point that they brought up was looking for value schools, finding schools that you can afford or that offer good value, that offer the courses that you want to take. They have your major. They have something that you want to study, and they're not that expensive.

Tom Mullooly: You just said one of the magic words, afford, going to a school that you can afford, and it's really hard to afford a lot of these schools. I would cringe when I would hear that someone we know is sending their son or daughter off to a school on the other side of the country where they have to take a plane to get there, and they're going to study education or nursing or business. We're in New Jersey.

Tim Mullooly: What kind of college in the local area doesn't have a business program or a nursing program?

Tom Mullooly: Right. Right.

Tim Mullooly: You need to be realistic. I mean kids ... I know I went through it when I was looking at schools. I found schools that I just ... we went and visited, and I fell in love with them, and I was like, "I need to go here. I want to go here," and eventually settled on York because my brother went there, and it was great, and it also was an affordable school.

Tom Mullooly: Well, they also put together a heck of a deal for you as well. You had good grades, and they made a terrific offer. It's kind of hard to refuse.

Tim Mullooly: Yeah, but I know that there are some people out there that their kids just get set on a school, and they send them there even if it's way too expensive for them and they have to take on loans.

Tom Mullooly: They're going to pay through the nose for four years of college. They're going to walk out with a, sorry, generic degree, and they're going into a field where they're never going to make top dollar and be able to pay off all of the money that was borrowed for their kid to go to this flashy school. Sorry.

Tim Mullooly: Or just a field that it doesn't matter where you went to school. As long as you have a degree, that's really all you need.

Tom Mullooly: That's right.

Tim Mullooly: The last point that they made was, when your kid's in college, talk to them about potentially working while they're in college. I had a job the first couple of years at school through the work study program at school, but there are jobs around campuses that you could get to take on. I know, as a student, I had a full course load but, honestly, I had a lot of free time. You can take advantage of that if you need to.

Tom Mullooly: Okay, so I'm going to just take a minute out to do my little commercial, okay? I finished in three years, as I mentioned before, and I stacked my classes so that I would go from 8:00 in the morning until 12:00 or something like that, and then I would work. I had a part-time job at Manufacturers Hanover, the bank. I would work every day, Monday to Friday, 1:00 to 5:00, and then a couple of nights a week I would go back and I would take classes from 6:00 til 8:30 or 9:00. Tim is over here cringing listening to this schedule, but I was off on Saturdays.

Tim Mullooly: As I was saying my piece about how I worked and I had a lot of free time, thinking about it, if I was in college, and I was a student, and my parents were like, "Hey, get a job while you're at school," I'd be like, "Yeah, no thanks. I'm good," but-

Tom Mullooly: Yeah, yeah, "I'm sorry. I got to go." You know?

Tim Mullooly: Yeah, so it might be more difficult than you think to convince your children to get jobs, but it could really be beneficial for them.

Tom Mullooly: My dad pitched me on the idea in 1979 that I should think about going to community college for two years and then go anywhere I want. That sounded so appalling to me as a 17-year-old. I was angry. I was mad at my parents for even suggesting that. I understand it's going to take a little healthy attitude adjustment on everyone's part, and it's got to be presented in the right way.

Tim Mullooly: Yeah, absolutely.

Tom Mullooly: It's not easy to do, but you know what? College is expensive. I'm speaking to the high school students who are listening to this podcast. College is super expensive. I mean your parents may have bought their first condo or co-op for the cost of a year of college. Think about that, okay? It's one year of college, so the full cost for four years may cost more than the house that you're living in right now. Think about that. Anyway, great article from Forbes. Tim, I think you'll probably link to it in the show notes.

Tim Mullooly: Yep, definitely. Another headline that we had here, not much really to talk about with this article, I just kind of chuckled at the headline. It said Stocks Steady Amid Lingering Trade Concerns.

Tom Mullooly: Gosh, I'm really happy about that.

Tim Mullooly: Yeah. I know, in previous podcasts, I pick out a lot of the articles that Brendan and Tom talk about, so I've seen all these headlines. We've had stocks going up because of trade concerns. We've had stocks going down because of trade concerns. Now here we are with a headline saying that stocks are staying the same because of trade concerns, so-

Tom Mullooly: At least they didn't use Brendan's favorite term: jitters.

Tim Mullooly: Right. They're concerns. They're not jitters, but-

Tom Mullooly: Yeah, yeah. They use the same buzzword to ... a click bait word two days in a row.

Tim Mullooly: Exactly. I don't know. Maybe the conclusion here is that trade concerns don't matter. As much as people like to write about it, they matter to-

Tom Mullooly: Well, they have to write about something.

Tim Mullooly: Right. They matter to an extent. If trade concerns make the market go up, down, and stay the same, what do you make of that?

Tom Mullooly: What would you pay for a copy of The Wall Street Journal or, even better, The New York Post, that had no headlines in it for one day? I would probably give them $1,000.

Tim Mullooly: Yeah?

Tom Mullooly: Yeah, no news today. That's great.

Tim Mullooly: Cool, yeah.

Tom Mullooly: Yeah. Okay, so do we have to talk about cryptocurrency? Do we have to?

Tim Mullooly: I'll mention the headline, and I think that there's a underlying point to be made about it, not necessarily get into a discussion about cryptocurrency and Bitcoin itself because I agree. I don't really want to talk about that either. The headline-

Tom Mullooly: But we'll use crypto in our headline because that'll be click bait-y.

Tim Mullooly: Exactly, buzzword, buzzword, Millennials, crypto, student loans, trade jitters. The headline on CNN Money said Man Loses 96% of Wealth Trading Crypto. Obviously, we know that cryptocurrencies and Bitcoin have been fluctuating like crazy over the last year.

Tom Mullooly: Are they even real?

Tim Mullooly: Who's-

Tom Mullooly: This could be the biggest fraud of all, bigger than Madoff.

Tim Mullooly: Who's to say at this point? I think the lesson to kind of take away from that is he had at least 96% of ... It sounds like he had 100% of his wealth in cryptocurrency, in one, call it, asset class, one type of investment. That's your problem. I mean you can have certain investments, but if you're diversified ... If one of those, for some reason, goes to zero, at least you know you still have a chunk of your money in other things.

Tom Mullooly: It's not going to change your life.

Tim Mullooly: Right. Just focusing on ... so hyper-focused on one asset class or one investment is never a good idea whether it's cryptocurrency, or stocks, or bonds, or anything.

Tom Mullooly: If you had 1% or 5% of your assets in cryptocurrency, or VIX futures, or something bizarre like this, even gold, and that asset class went to zero, and you lost 1% of your net worth or 5% of your net worth, would it change your life? You'll hurt. It's going to sting.

Tim Mullooly: Yeah. It'll be a bummer, but you're not going to starve.

Tom Mullooly: Right, yeah.

Tim Mullooly: 96% of his wealth in cryptocurrency.

Tom Mullooly: We're going to find out that the guy had-

Tim Mullooly: Shocking.

Tom Mullooly: ... $100, and he lost 96 of them.

Tim Mullooly: Yeah, right. Yeah.

Tom Mullooly: I lost 100% of my wealth at the craps table. All right, so we're going to have some changes coming up with some of the way the indices are constructed, and it's coming soon.

Tim Mullooly: Right. There was an article in The Wall Street Journal talking about tech investors preparing to say goodbye to Facebook and Google. Again, just using that as the headline, it's like, "Wait. Where are they going? Are they going out of business?"

Tom Mullooly: Or they're going away.

Tim Mullooly: The new S&P 500 communication services sector is going to reclassify on September 21st, so that's coming up in a few days here, and it's taking Facebook and Google and other stocks into that sector and out of the technology sector, so if you're a tech investor, technically, you wouldn't have those in your arsenal anymore. The companies aren't really going anywhere. You just need to change how you get exposure to them.

Tom Mullooly: I think the big question is how are they going to disseminate the difference? Because I think, for the most part, the communications sector, up until next week, was AT&T and Verizon.

Tim Mullooly: Yeah. They said it was 11 total names, and telecom was the sector that it's replacing.

Tom Mullooly: I mean I can only think of a couple of other companies that would qualify as communication, Cox Communications, what else? Liberty Media? I mean I'm having a hard time coming up with names.

Tim Mullooly: Yeah. I think that that's most likely why they're reclassifying all of these into a new sector.

Tom Mullooly: I never understood why would Amazon be considered a technology stock when it is destroying retailers? I honestly think that they should have two retailing sectors: non-Amazon, which is everyone, and Amazon all by itself.

Tim Mullooly: Right. Companies like Amazon and Facebook and Google, they do so many different things, especially Amazon. It's hard to classify them into one sector because they reach so many different sectors. It kind of catches your eye when it says they're preparing to say goodbye to Facebook and Google, but they're not really going anywhere. You'll have to buy a new ETF or a different mutual fund or something if you want to continue to own those names.

Tom Mullooly: Prepare to see a lot of ink getting spilled in the next few days over this. Tim, I think you found a really good quote from Warren Buffett that we'll close with because this one is just classic.

Tim Mullooly: Yeah. I saw this. Ben Carlson retweeted it, and he quoted it, and he said something along the lines of, "This one sentence has more value to it than all of the sentences in any finance textbook I've ever read." Warren Buffett says, on why bubbles happen, people see neighbors, quote, dumber than they are getting rich.

Tom Mullooly: That infuriates people. It really does. Wait a minute. That knucklehead who lives across the street from me, he's now driving a Porsche?

Tim Mullooly: Yeah. From the macro level, it's kind of like stop comparing yourself to other people. That's a loser's game, but we know that's not going to happen. From day one of human nature til today and til the end of time, people will compare themselves to their peers. It's going to happen.

Tom Mullooly: It's okay to do that. Just don't do it with your investments, so-

Tim Mullooly: Right. I mean if that wasn't a thing, I mean, performance ... that is performance chasing.

Tom Mullooly: Sure it is.

Tim Mullooly: You see other people getting rich in an investment. You want to go also get rich in that investment, and you chase into it.

Tom Mullooly: Well, thanks for listening to episode 227. This is the episode we pay homage to Jackee who was on episode 227 in the '80s.

Tim Mullooly: Still don't know who that is.

Tom Mullooly: That's all right. Tune in next week for episode 228. Thanks for listening.