Does Your Checking Account Pay For Your Hulu? - Transcript

Tim Mullooly: Welcome back to the Mullooly Asset Management podcast. This is Tim Mullooly. On today's episode, I'm here with Brendan and we've got a handful of very good articles we wanted to talk about. So, Bren, what's up first?

Brendan: First and foremost, Pete Alonso won the home run derby last night.

Tim Mullooly: Oh yeah, big news! We got to start off with that.

Brendan: Yeah, Polar Bear Pete, the Met slugger, is home run champion of the world. So, that was fun because the Mets stink this year and it was kind of nice to see somebody from their team do something ...

Tim Mullooly: Yeah. We find-

Brendan: Not important, but entertaining and fun.

Tim Mullooly: Yeah, finally have something to cheer about with the Mets, 10 games under 500 and floundering ... big time... that was nice.
Although, there are people online, obviously people like to complain about stuff, but they're like, "Oh, Vladdy hit 91 home runs last night and lost." It's like, well, yeah, can't go back and change the rules after the fact. People are just complaining, that Alonso didn't really win ... Yeah, Yeah he did.

Brendan: He won, looked like Vlad Junior, maybe wore himself out in the previous two rounds. Definitely, great show all around. I thought it was one of the more entertaining home run derbies in recent memory.

Tim Mullooly: Yeah, definitely. It's just typical Mets fashion though, even when they win something everyone's like, "Ah, they didn't really win, like Vlad won." It's like oh gosh, just let us have this one.

Brendan: Yeah yeah we could use one, for sure.

So, anyway the article that I saw over the last week in the Wall Street Journal was talking about how some banks may be paying for things like their customers' Amazon Prime or Hulu subscriptions now. This is a new thing, apparently. What do you think about that?

Tim Mullooly: When I first saw the headline, I was like, "That's outrageous.", but in like a good way. It's like I want to go bank with that bank. And, I guess that is the intended response they were hoping to have for a lot of people.

Brendan: Yeah, reminiscent of credit card rewards. This is ... banks want now to get the checking business because it's one of the more profitable lines that they have because no one really expects any interest payments on their checking accounts and they're pretty sticky in the sense that people don't really move them a lot. And, maybe do ancillary business with the bank, after they open a checking account. So-

Tim Mullooly: Yeah, so it gets their foot in the door. Like if you open a checking account, you're more likely to use the rest of the services that the bank offers. When they explained it that way, I didn't really ... At first, I didn't think about it that way, the checking account business being a big business for banks is one that they are going after. But, the way that they explained it, it does make sense.

Brendan: And, changing your primary checking account is a pain in the butt because there are a lot of things for a lot of people where auto pay bills are coming out of there, or photo deposits your pay checks and changing that is more effort than it's worth sometimes, but, they're getting people to do this. The degree to which, it's happening, maybe not as much. Therefore, the new incentives, they had some numbers in there about people changing their primary bank account.

Tim Mullooly: And they're saying, it has to do a lot with some savings accounts and online banks are now offering more interest for their accounts. So, it's actually worth it for some people to jump over those extra hurdles and pick up and move their accounts.

Brendan: Yeah, but even still, they showed that over the last year only like 4% of people changed their primary bank accounts. And, maybe that's why they're trying a new shtick where they going to pay for your Netflix for a year, whatever. These things tended to fall into the couple hundred dollars range and the way that it seems like it works is it's a rebate. So, you pay for the subscription and it's rebated if you pay for it out of the checking account that you have with the bank. Let's make this promise ease.

So, similar to getting airline points or any other kind of rewards, really. And, same goes for that, some people will try to game the system and hop around and rack up points, and my opinion there is: if you can do it, and not suffer any negative ramifications, then great, might be a pain in the butt. If you think it's worth it, that's cool.

And, there are certainly people who seem to truly game the system here. But for a lot of other people, maybe not worth it, you just pay your $11.99 a month for Netflix and call it a day.

Tim Mullooly: For me, personally, I don't have the time or interest to jump around from bank to bank and optimize to game the system, like some of these people. But, like you said, if they can do that, and they want to, more power to them. For me, personally, I think it's ... I saw the headline, I was like that's really cool, but it's still not for me, it's not cool enough to make me pick up-

Brendan: Doesn't move the deal enough for me. Not a big enough deal.

Tim Mullooly: Yeah, exactly. I mean I already have some of these subscriptions anyway

Brendan: Mm-hmm.

Tim Mullooly: so, eh I'm good. But, it's definitely an interesting concept that you never think to tie the two together.

Brendan: Yeah, it's usually tied more to credit cards or something like that.

Tim Mullooly: It's like Hulu and checking accounts, yeah. It's interesting when you see a headline like that, definitely.

Brendan: Along the same thing as subscriptions, there's a post in Forbes recently talking about Netflix's worst nightmare has come true.

Tim Mullooly: Yeah, I saw ... probably seen all over the internet, shows like The Office is leaving Netflix. I just saw literally right before we walked in, I saw a tweet that said, "Friends is now, also, leaving Netflix."

Brendan: It's going to be on the new HBO platform.

Tim Mullooly: Yeah, HBO Max or whatever it's called.

Brendan: So in addition, to those two things, because I guess, The Office is going to be on NBC's versions of streaming service.

Tim Mullooly: Yeah, they're coming out with their own. I'm not sure of the name of it though.

Brendan: Disney, is obviously the big one, which will debut later this year at 6.99 a month, I think they said. So they've all ... not only are they going to have all of the Disney content that you'd know and love, cartoons aside, they also have Avengers movie franchises.

Tim Mullooly: Yeah, they were saying in the article. We'll link to it in the show notes. But, they listed out the top movies and the top franchises and even, some of the top TV shows over the last year. Literally, at top all of them were Disney.

Brendan: Yeah, a lot of stuff going to be leaving, all the other platforms and I mean, Netflix included obviously. But, if they're on anything else they'll gone too, on to the Disney Plus package and at about half the cost of what Netflix costs per month. And so, this article is using that to make a bare case for Netflix, basically saying, "Look, they're losing all their best shows and they're borrowing money at a ridiculous rate relative to the actual profit that they turn per year. You know, you read this thing, and you're like, "Oh my God, I guess I should go ... "

Tim Mullooly: "I need to sell Netflix or short it." Yeah.

Brendan: "... short Netflix, not even sell it." This is crazy, but we don't know, like this is all conjecture, I don't really know for sure. Are people necessarily going to cut their Netflix subscription to add Disney Plus or this new HBO thing they're- or they going to do it in addition to their Netflix? Because the whole thing with the subscription model that everybody loves from a business standpoint is that, it's like a recurring revenue. And so, your Netflix will becomes a bill that comes out of your account and people tend to just leave those things alone.

Tim Mullooly: Yeah, doesn't necessarily mean that they're going to cancel Netflix and pick up these other streaming services. They can, like you saying, just add it on top. No one really knew when Netflix was the first big streaming service that did this. So, they had a handful of years where they didn't really have any competition, but obviously, that's not going to last. And now, we're seeing it come to fruition where a lot of other streaming services are becoming prominent. But that also doesn't necessarily mean that Netflix is just going to fold and go to zero. We don't know- Netflix was a DVD rental company and then they became a streaming service. And who knows what they're going to be in 5, 10, 15 years to say ...

Brendan: To say that they're going to stand still while everybody else continues to innovate around them. Yes, certainly, it's a possibility but one of the bigger points ,that you had brought up before we started recording, was just the idea that a huge stock, a huge company, that's been very popular over the last several years like a Netflix, we never know which of today's market leaders are going to be in the dumpster in 3, 5, 10 years. It always seems like these companies are going to ...

Tim Mullooly: They're going to be around forever.

Brendan: Right, we're going to the moon, this thing can't go down. And, if you look at all the biggest companies by each decade, I'd seen a chart of this where many of them disappear.

Tim Mullooly: Yeah, you see the names fall off. I mean, Tom says it all the time. It's like look at the names on the Dow when the Dow was created, or even the Dow 20 years ago, or 30 years ago. Some of those companies don't exist, some of them are still there, but they're smaller. Some of them are bigger. It's like you don't know what these companies are going to do over the next five to ten years.

Brendan: I actually saw a really cool chart today. I'll dig out the link and maybe we can put it into the show notes. The chart showed the SMP-500 over time, I forget the exact time period, but it showed SMP-500 over time versus just owning the biggest company in the SMP-500. And, every time that it changed, it changed you to just holding that one biggest stock. And you underperformed massively because the growth is coming from companies that are newly entering the SMP-500. That's where some of the biggest growth comes from, not necessarily the most popular well-known names that are out there.
Just an interesting thought to consider, because naturally products like a Netflix, or name any other big company that we use all the time, are the most popular names, the ones that we hear about in the news all the time. We hear bull and bear cases like this, where the stocks all the time. Because making calls on them is more ...

Tim Mullooly: More interesting.

Brendan: It is. Because everybody knows what you're talking about. So, take it with a grain of salt. Because literally nobody knows where we're going and you probably don't want to just be levered up in names that you know. You almost certainly want have some diversification there.

Tim Mullooly: Yeah, can't predict the future.

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Tim Mullooly: Speaking of not being able to predict the future, there's an article on the Wall Street Journal that was titled, Where to Invest When the Fed Cuts Rates, and-

Brendan: Yeah, talk about trying to predict the future. No kidding, right?

Tim Mullooly: The word I underlined and circled the word, "When". Here's where to invest when the Fed cuts rates, like it's going to happen, it's definitely going to happen. Like yeah it will, but if that implies it's coming, like 100%-

Brendan: That we know for sure.

Tim Mullooly: For sure, here's what to do when that happens.

Brendan: So, we should be positioned like this, for when this happens. Also, the way that they laid this out was basically by looking at the last four times the Fed began cutting interest rates to discern patterns from these occurrences. As if, four instances give us enough of a talkable size-

Tim Mullooly: Yeah, talk about a small sample size.

Brendan: Right and the sample size literally told us absolutely nothing.

Tim Mullooly: Right, to- yeah, lucked out four times. It was 1995, 1998, 2001, and 2007. So, after the Fed started lowering rates in 1995 and 1998, stocks rallied. And, after they started lowering rates in 2001; in 2007, stocks went down. So, we're left with a 50-50 shot that if they lower rates this time, stocks could go higher or stocks could go lower. Wow. Wow.

Brendan: That is the proposition.

Tim Mullooly: Groundbreaking stuff.

Brendan: We are faced with that proposition each and every day because if you look at the daily odds of the market being up or down on any given one day. It's coin flip odds more or less.

Tim Mullooly: Yeah, I mean jokingly said, "Groundbreaking stuff." But, in a sense, it kind of is because when you've been reading about what's going to happen when the Fed cuts rates, it almost seems like it's a guarantee that this is going to be great for stocks. Like this is going to prolong the bull market. It's like that's not necessarily the case, this article showed that there's a 50-50 shot. As always.

Brendan: Not only were the odds 50-50, in terms of the last four times what direction the market went in after a rate cut. It also had a chart at the top that showed from the rate cut two years out from each of these instances that you named, '95, '98, 2001, 2007. And, it showed the actual performance not just direction and the performance ranged from plus 50% to minus 50%. And so, not only do we have 50-50 odds of being directionally correct if we're going to assume one of these instances is exactly like what is unfolding now, which it probably isn't. We have 50-50 odds of being directionally correct, but the degree to which we're going to be directionally correct, it could be anything based on history.

So, pass this prologue, we have no freaking clue. Is what I took away from that.

Tim Mullooly: Yup, exactly. That was one point I had about that article. And, you're just seeing more and more of articles like these, like when this happens ... this is going to happen. I think if x, then y, like this is going to happen.

Brendan: Yes, that's not the way the world works because when you break down something like this, it's more about the sentiment or how people react or interpret things, like a rate cut. Because to think about the actual economic ramifications of 25 basis point, a quarter of 1% rate cut or hike, in whatever direction we're talking about. What are the actual economic ramifications of that? Are businesses-

Tim Mullooly: Like you take the human response out of it.

Brendan: Yeah, what are businesses changing based upon that level of interest rate change? It's not changing much, in my opinion, but it may be changing the way that people feel which certainly has an impact, not dismissing that. That is literally what we're trying to predict though. So when you break it down to, we're not really working with numbers here, we're working with how do people feel, how does the market collectively, millions of people, how do we all feel about a rate cut? Do we think it's good because it's going to prolong the rally? Do we think it's bad because it signals that the economy isn't good? I don't know it could be a million other things. It could be-

Tim Mullooly: Yeah, it could be good because it's going to prolong the rally. It could also be bad because it's going to prolong the rally, you never know, it could end up being a bad ... like good news is bad news; bad news is good news; bad news is bad news; good news is good news. There's so many-

Brendan: Just a head scratcher, we could tell you what-. If we wanted to assume that we knew for sure what the Fed was going to do at their next meeting at the end of the month and we had the answer ahead of time, like we have Biff's Sports Almanac from Back to the Future. We still wouldn't be able to take that information and make a good investment today, based upon just knowing if they’re going to cut or leave it alone or what they're going to do.

Tim Mullooly: Yeah, we need to know how everyone's going to react to it.

Brendan: How does everybody feel about that?

Tim Mullooly: Yeah. So, that's just impossible. It's a very risky bet, in my opinion, to be making a bet based on sentiment of whether or not the Fed's going to cut rates.

Brendan: No doubt, I think that, that type of thinking where we need an answer, for sure, is kind of along the lines of another article that I wanted to bring up. Where, again from the Wall Street Journal, like the previous one, they talked about, As Stocks Surge to Records, Nervous Investors Buy Bonds, Too, which I think they were trying to present the case that people are confused maybe, like as we were just alluding to, maybe we don't know what's going to happen with the Fed.

And so, some people are buying stocks because, stocks are going up. Conversely, other people are nervous and they're buying bonds because they don't know what's going to happen. And, I think we mentally separate these people out into two distinct camps, as if you can only be optimistic and buy stocks, or nervous and pessimistic and buying bonds.

As a result-

Tim Mullooly: That's not the case.

Brendan: No, who says that investors cannot be buying a mixture of stocks and bonds that is appropriate for their situation, like if you should be 50-50 stocks and bonds based upon your financial plan and what your intending to do with your money over the next couple of decades. Then, if you have new money to put to work and you buy half stocks and half bonds, you're not so much expressing a viewpoint of being nervous because you bought some bonds or being optimistic because you bought some stocks, as you are being sensible by sticking to your knitting, to your game plan.

Tim Mullooly: Yeah, the tone of this article kind of rubbed me the wrong way because it made it seem like with the market, equity market at record highs, you’re doing something wrong if you're buying bonds. Stocks are at an all-time high, why would you be buying anything other than stocks? If anything, now might be the best time to be buying bonds, you don't want to buy bonds when the market's going down and you wished you had the bonds to cushion the blow in your account.

Brendan: Mm-hmm.

Tim Mullooly: You want the diversification. You need to buy it before you need it. ...

Brendan: I think-.

Tim Mullooly: It's like car insurance.

Brendan: Yes, exactly. And that's the way a lot of people view the bond port of their portfolio is, as insurance for the stock side, hopefully going to hold up, traditionally has when the market falls out of bed. I think the problem is that we naturally want an answer like, "Okay I have money, should I buy stocks or bonds?" As in-

Tim Mullooly: Yeah, for one or the other.

Brendan: What's going to occur and which one is going to be the best? Rather than, you don't need to look at this as an either or proposition. It can be both. And, it's to which-

Tim Mullooly: Like what mix.

Brendan: To what degree should I put this money to work in stocks and bonds? It's a far more boring and appropriate question because it doesn't involve you predicting the future or expressing a view point over the short term outlook for stocks or bonds. Specifically, you're just saying, "Hey, look based on your circumstances, it would probably make sense to split it up this way, here's why." And, you go from there. But, that doesn't make for good articles and so people try to find a narrative to support why they should be in one camp or the other.

Tim Mullooly: Yeah, definitely.

Brendan: They almost certainly don't to be.

Tim Mullooly: Yeah, it's definitely more interesting to polarize things like that and make it black and white. One or the other. But, it definitely doesn't need to be and I think that, that's the takeaway from that article.

Brendan: You're almost always better off not making binary decisions or being firmly in one camp or the other. It's almost always about the nuance and that's where you can really tailor what you're doing to your situation rather than prognostications or what someone is predicting on the news or whatever it may be.

Tim Mullooly: Yeah, definitely. That's going to wrap up this episode of the Mullooly Asset Management podcast. Thanks for listening and we'll catch you on the next one.