Navigating a Down Market Before Retirement - Transcript

Tom Mullooly: Welcome to the Mullooly Asset Management podcast. This is episode number 272. Thanks for tuning in. I'm Tom Mullooly. Joining me this week is Tim Mullooly.

Tim Mullooly: Hello everybody.

Tom Mullooly: I've got a bunch of different articles that we wanted to bring to our listeners' attention. I think the one that rose to the top of the pile is the news surrounding Andrew Luck quarterback from the Indianapolis Colts.

Tim Mullooly: Former quarterback.

Tom Mullooly: And now former. Yeah. Suddenly announced that he's retiring at age 29.

Tim Mullooly: We wanted to start off with this one because I'm sure everyone listening has heard the news by now that Andrew Luck has retired. There was an article in Forbes talking about how Andrew Luck's retirement shows what happens when you don't fix an employee's demotivators. They said in the article, while people that don't play in the NFL, which is pretty much everyone out there, won't know that physical pain that he was going through having all of these different injuries. A lot of us do know some of the psychological and emotional pain that sometimes jobs or careers or places that you work at can bring with it. During his press conference he said a handful of times that the injuries and the rehabbing kind of just took the joy out of playing the game.

I feel like a lot of people might be able to relate to that. You join a field with a lot of passion and you have a new job and then things happen along the way and you just lose the joy that was there from doing that job that you had back when you started.

Tom Mullooly: It's a real problem and it really does exist. I thought this was actually a very good article Mark Murphy published in Forbes. He gave a good example of someone who's a... say they're a top salesperson and they come to work for your firm, but you paired them up with an assistant who is just awful at their job. How long is it going to take a CEO or supervisor to realize, wow, this is really holding this top performer back. Let's get rid of this other person, this assistant, and pair them up with someone who can really shine.

Tim Mullooly: Yeah. They said, which I found shocking, that 42% of organizations out there, the low performers, were more engaged than the mid to high performers. They said meaning your best employees can be suffering more emotional or psychological pain at their job on a day-to-day basis than your worst employees. That's risky for the business.

Tom Mullooly: I saw it in living color when I worked on the brokerage side years ago. If you were not a big producer, they would basically say, "Okay, that guy in the corner office, he's got his own sales assistant. But everyone else out here in the bullpen, like all 11 of you advisors or brokers, you're going to work with this person who has trouble walking and chewing gum." Basically, you had no help. You had to figure it out. Then every once in a while a salesperson would kind of climb out of the mud and they would get a deal to go across the street to another firm. They'd get a little more help, not a lot, a little more help, and all of a sudden they're a superstar.

Tim Mullooly: Yeah. I think it's important to just remember that while someone might be performing really well at their job, if the culture or the incentive system or the whatever is going on during the office, that affects their job performance as well. They might be one of your highest earners bringing in a lot of new clients and big bucks for the firm, but if they're not actually happy with what they're doing, they're a flight risk, they can just up and leave. It doesn't say a lot to the building company loyalty. It might not be sustainable.

Tom Mullooly: Okay. Since we're talking about Andrew Luck, trivia question, who did he replace as quarterback of the Indianapolis Colts? Peyton Manning.

Tim Mullooly: Yeah.

Tom Mullooly: Right. Okay. Andrew Luck's dad played in the NFL. Did you know that?

Tim Mullooly: I did.

Tom Mullooly: His name was Oliver Luck. Who replaced Oliver Luck as quarterback?

Tim Mullooly: I'm going to guess Archie Manning.

Tom Mullooly: Correct. Archie Manning.

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Tom Mullooly: We found this story that we thought we'd share. We don't want to get into a lot of details of this, but it was in Markets Insider, which I think is like a sub-category of Business Insider, but they talked about something going on in Australian markets.

Tim Mullooly: Yeah. The headline is crazy. It says, "Dating apps have become hotbed for scammers trying to trick investors into making risky trades." This is a real story. This is going on in Australia, not in America. But women apparently are being paid to lure male investors on dating apps, so they engage with them as if they were going to go out on a date or something like that, and then they're actually being-

Tom Mullooly: What do you know about frozen concentrated orange juice futures or something?

Tim Mullooly: They're getting paid to get them to invest money, I guess on those dates or over the app in risky leveraged trades. I think they call them Contracts for Difference. It's like options and all these different leveraged crazy things.

Tom Mullooly: These are products that are leveraged 200 times to one or in some cases 500 times to one, where basically you put up a couple of bucks and the potential is there to make thousands and thousands of dollars. But the reality is these are just scams.

Tim Mullooly: Yeah. I mean, you hear about scams on dating apps with the people aren't who they say they are, but I honestly never even thought that something like this would ever be a thing, investing scams on dating apps. Whoa! My gosh!

Tom Mullooly: When you see these stories, you think that, "Oh, this probably happened just once or twice." But it turns out that the Australian financial review reported that brokers are spending more than $280 million a year on commissions for these women that they call introducers.

Tim Mullooly: Wow!

Tom Mullooly: Wow is right. They're including women on messaging services and dating apps to reach out to traders. They'll get large commissions if they're able to convince traders to invest in these contracts.

Tim Mullooly: It'd be interesting to see if something like this were to happen in the US because I'm not sure what the Australian laws are. Would these women be considered advisors or brokers or some kind of representatives in soliciting business, giving out recommendations for securities and they're being paid for it. Wouldn't that qualify them... they have to register as an investment advisor or a broker.

Tom Mullooly: I wonder if they're even real people. It makes you wonder. Because it also said this Australian... basically the equivalent of the SEC in Australia said that investors have lost, in the past year, close to $2 billion in these speculative contracts.

Tim Mullooly: File that under the yikes category-

Tom Mullooly: Yeah, really.

Tim Mullooly: ... for headlines. I think Josh Brown wrote a really good article this morning or yesterday that we wanted to talk about in terms of bubbles and active versus passive investing.

Tom Mullooly: Okay. He started out by referencing an article that came out yesterday where Michael Burry was quoted. Now, Michael Burry was and is a pretty savvy investor, trader. He was actually one of the featured characters on The Big Short. Now, who played him? Was it the guy from the office?

Tim Mullooly: Steve Carrel?

Tom Mullooly: I think it was.

Tim Mullooly: I think it was.

Tom Mullooly: The reason why he brought this up was because Michael Burry was quoted yesterday in a different article saying that passive investing has become a bubble. When I saw that headline yesterday... because I actually saw the headline and then I read Josh's article earlier today. I saw the headline yesterday and I was like, "That can't be right." There was actually an eruption of discussions on Twitter last night about this. Incidentally, if you're not following Tim Mullooly on Twitter, get with it because he's plugged into everything including the Mets.

Tim Mullooly: Appreciate the shout out.

Tom Mullooly: When I saw that headline I was like, "Okay, first of all, Michael Burry is smart guy." Okay. To say that passive investing is a bubble, my interpretation was, you mean people buying index ETFs... ETFs that follow an index, that's passive investing, right? How could that be a bubble? I don't understand. But he actually went on to explain that what he considers passive investing was really small cap value. Think about small caps. They're small cap for a reason. They fit into a much lower valuation than IBM and-

Tim Mullooly: Apple.

Tom Mullooly: ... Apple And Oracle and all these big companies. Okay, so it's small cap. Then value is where people will say, "Hey, this is a value stock because the assets are worth more than the value of the company is trading at." Reading the original article, it basically went on to explain that a lot of small cap value names are just getting thrown out in the trash right now because hedge funds are just dumping these things without any kind of consideration to what they're actually worth. They're just doing this to raise money so they can invest somewhere else. But Josh actually kind of took that idea of the bubble and turned it around and he talked about the bubble has always been in active management. We spend a lot of time talking about passive versus active.

Tim Mullooly: When Josh said that using the term bubble for passive investing, it's just the wrong terminology and it's the wrong way to think about it because when you think of a bubble, a bubble in investing is something that's very-

Tom Mullooly: About to pop.

Tim Mullooly: It's very speculative and it's getting ridiculous amounts of enthusiasm and it's unsustainable. That's the opposite of what you think people buying low-cost, cheap ETFs, broadly diversified funds. I think it's just the wrong terminology of calling it a bubble. But he talked about how the active bubble really started back in the '80s with these actively traded mutual funds and it pretty much ran all the way up through the tech bubble in the early 2000s and then through the Great Financial Crisis in 2007/2008. So really what we've been seeing from the recovery after the Great Financial Crisis till now and the trend towards low cost index ETFs is more of just reverting back to normal. The bubble was more at active management of what happened the previous 20, 25 years.

Tom Mullooly: Sure. You probably remember all of these ridiculous online brokerage firms with their crazy commercials.

Tim Mullooly: Yeah.

Tom Mullooly: There was an e-trade one and he referenced it in his post about a truck driver who could buy his own island because he was day trading his account.

Tim Mullooly: Right. Yeah. Things just got out of whack there for a long time. Up until 2007/2008, that's kind of when people kind of just threw their hands up. They had had enough. After the tech bubble and then after 2007/2008 they were like, "All right, we're done with this. Just give me the average. Just give me plain vanilla, give me the average." That's the way the trend has been going for the last decade.

Tom Mullooly: The amazing thing is that we still have folks that come in here for FIT meetings at our firm and they still want to talk about performance and how we're going to do versus markets. I'm a little surprised that there's still some people out there who are trying to be performance chasers and think they can catch lightning in a bottle. I think it would be a better use of everyone's time if they understood how keeping up with the average is probably the best thing that you can do.

Tim Mullooly: I don't necessarily blame a lot of the individuals that come in here because a lot of people they might have maybe worked with one other advisor or one other broker early on in their career. That might've been their only experience and that... or they have no experience and that's just what they heard over their lifetime growing up. So they don't know the change that has been going on in the industry over the last decade. So I think that it's important when they come in and they have those preconceived notions of performance and stock picking and pick a note, hot tips. It's important for us and other advisors to say, "Hey, the game has kind of changed a little bit. Here's how we're doing things now and this is why we think it's a better approach."

Tom Mullooly: Very good article from Christine Benz on... as usual on the Morningstar website. Christine, friend of the firm, was featured in a Living With Money podcast episode not that long ago. Who was on first? Jeff Ptak or Christine Benz?

Tim Mullooly: Christine was on first. It doesn't feel like it was that long ago, but I think it might be bumping up on a year. But the article that she wrote recently was titled, A Down market Survival Guide for Pre-retirees. This is for people that are worried that this bull market that we're in is eventually going to end, and if it ends right as I'm getting ready for retirement, what do I do?

Tom Mullooly: Very timely because we get this question a lot.

Tim Mullooly: Yeah. It's usually in the top three questions that people within five or six years of retirement are asking. What happens if the market goes down?

Tom Mullooly: Christine wrote this article with the idea that, hey, if you're within 10 years of retirement, here's a few steps you ought to keep... or a few pointers you might want to keep in mind. The first one she said was, "See where you stand."

Tim Mullooly: We talked about this on the Living With Money podcast for this week. She was like, "As much as it might hurt, if the market gyrations are making you uncomfortable, you need to log in and look. Even if it's down, you got to know where you stand, you got to know what the numbers are." I totally agree.

Tom Mullooly: Step two, she said, "You need to turbocharge your savings." I'll admit that my wife and I are in that scenario now. The kids are out of school, they've all moved out. So it's okay, let's step on the gas for the next 10, 12 whoever knows long this is going to be. But this is really when we should be stepping on the gas in terms of increasing our savings, not only in retirement plans. I mean, you have some thresholds, but if you have the ability to go above and beyond that, you really should be socking money away. Now's the time to do it.

Tim Mullooly: It's an important point to remind people. In terms of the market and your financial plan, you control what you can control. You can control your savings rate, you can't control what the market does. If you're worried about something, you might as well worry about and do something about what you can actually control.

Tom Mullooly: Well, speaking of taking control.

Tim Mullooly: Yeah. The third point was, take control of your retirement date. She said that it's sometimes out of people's control downsizing if there's a recession that's also probably going to raise the unemployment rate back up from the low points where it's at now. But she said a couple of ways that you can personally try and take control of when you want to retire is living a healthy lifestyle. You don't want to get sick and have medical expenses that deplete your retirement savings.

Tom Mullooly: I'll add that we've had a couple of situations where clients have told us over the years, years gone by, that I'm definitely retiring at 62 or 65 or fill in the blank and then a few years before that they get sick. They don't even make the retirement date. To our listeners out there, you really need to think this through.

Tim Mullooly: Yeah. Sometimes, I mean, the sicknesses might be out of your control. But again, controlling what you eat and how much you exercise, and also perhaps think about continuing education and keeping up with technology, so at your job you become more valuable to the company and you don't fall behind.

Tom Mullooly: Makes sense.

Tim Mullooly: Yeah. The fourth point that she brought up, she said, "Revisit the "safe" portion of your portfolio." You always need to reassess especially as you're closing in towards retirement. You might need to increase the safe amount in your portfolio or-

Tom Mullooly: Maybe you're being a little too conservative.

Tim Mullooly: Right. Yeah. If you do some projections and you realize your investments aren't going to give off as much as you think and you have a little bit of time to let the account grow, you might want to maybe pull the reins back.

Tom Mullooly: Which kind of spills over into step five, which is, assess your equity positioning. How much of your investments are really invested in the market and subject to risk. That's really important to know what your allocation looks like. Then step six, factor in what kind of sequence of withdrawals you want to take and what do you want to do with social security? These are all huge, huge factors in determining your cashflow.

Tim Mullooly: Yeah. Especially with social security, there's a bunch of different scenarios and different numbers to crunch in terms of, if I wait to 62 or if I wait until 65 or if I wait until 70. The seventh point that she brought up was, evaluate anticipated lifestyle changes. Meaning, when you retire, what-

Tom Mullooly: Are you going to move? Are you going to relocate? What are you going to do? You going to downsize?

Tim Mullooly: How much money are you planning on spending? Do you want to travel? Lifestyle changes, all of that kind of that thing needs to be evaluated and reevaluated on a constant basis.

Tom Mullooly: The constant basis part is, I think, the thing that a lot of people overlook. One of the phrases you've heard me use a lot with clients is Semper Gumby, always flexible. You just have to be ready to change your plans if the situation calls for it. People get sick, things happen. You want to really be up to speed on what's going on with all of this stuff and not be locked in.

Tim Mullooly: The final point that she brought up, step eight, assess your insurance safety net. Again, like a lot of the other points in here too, insurance and what you have there, it's important to always make sure that it's appropriate if you need more, if you need less. Just a good time. In general, as you're starting to close in towards retirement to just kind of see if everything is where it needs to be.

Tom Mullooly: Okay. There was an article in Bloomberg today about the idea of 100-year treasuries, 100-year maturity treasury bonds. You can buy T-bills, they come due within two years or less. Treasury notes come due five years or less. Everything beyond five years is considered a treasury bond, 10 years, 20 years, 30 years. There was a time in the 1990s when the Clinton administration actually stopped issuing 20-year treasury bonds. The idea was they wanted to reduce the debt and the deficit. That's where they stopped issuing 20-year. But now they're talking about, since rates are so low, maybe issuing 100-year treasuries.

Tim Mullooly: Right. They said with the 30-year, now under 2%, this might be... they said there's no better time to do it than now than to issue 100-year bonds. Issuing a hundred year bonds, it would re-steepen the yield curve. Obviously now you've heard portions of the yield curve are inverted or were inverted. So this would re-steepen the yield curve adding 100-year bonds in there. Isn't that just moving the goalpost? Just like, "Oh, we'll just add 100-year bonds in there and that'll re-steepen it. That'll get rid of all the recession fears." The economic data is still the same. It's just adding another bond in there to just fix the yield curve real quick. It's manipulating the yield curve... not like... so it's not inverted.

Tom Mullooly: I understand what you're saying. But moving the goalpost has been happening since the days of Alexander Hamilton.

Tim Mullooly: Right.

Tom Mullooly: So-

Tim Mullooly: I mean, it would make people feel better because it's like, "Okay, whew! The yield curve isn't inverted anymore." But all of the same data that would be pointing towards a recession could still be coming anyway. It's just like, "All right, well, the yield curve is not inverted now, so I'm not worrying about it anymore." It'll just make us feel better.

Tom Mullooly: You raise a good point because when they talk about an inverted yield curve, they're actually measuring the two-year yield versus the 10-year yield. The 30-year yield is still going to be higher hopefully and the 100-year, if they ever issue it, would be higher still. I think they should take a baby step and do a 50-year and do that. But yeah, it does raise an interesting question about manipulating the yield curve. There's something else out there that nobody, nobody is talking about in all of this discussion about the economy and the inverted yield curve and all this stuff. I'm going to call it Oliver Twist. But it was Operation Twist in 2011. Until this article today, this was August 29th, 2019, this is the first time I've seen anything in print talk about the yield curve and Operation Twist.

What Bernanke did in 2011 was he said, "Hey look, here's what we're going to do. As we have all of these short term bills that we bought in the open market, as they come due, instead of taking that money and buying more... taking more short term bills off the market, we're actually going to buy long-term bonds." So they drained the market of supply of 30-year bonds by doing that. That helped flatten the yield curve eight years ago. Nobody is talking about that.

Tim Mullooly: Yeah. It's interesting that no one's talking about that. My thought process is like, "Would adding this 100-year bond... Would that really stop any impending recession or would it just make you feel better until it gets here?"

Tom Mullooly: I don't think it would stop a recession at all. We've had recessions without inverted yield curves. I think that's the other part that... People are just losing their mind right over this inverted yield curve, because we've had yield curve inversions several times over the years not followed by recession. So everybody is just got to take a chill pill.

Tim Mullooly: I think just in general, people need to just relax about the yield curve. But that's the end of my take on that.

Tom Mullooly: That's also the end of episode 272. Thanks for tuning in. We'll catch up with you on the next one.