4 Lessons from 35 Years in the Business - Transcript

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Tim Mullooly: Welcome back to the Mullooly Asset Management podcast. This is episode number 350. Thanks for tuning in. This is Tim Mullooly. And with me today is Tom Mullooly.

Tom Mullooly: Good morning, good afternoon, and good evening.

Tim Mullooly: This is a milestone episode for the podcast. And last month was a milestone for you personally in the business, you hit 35 years working in the financial industry.

Tom Mullooly: Yeah, 35 years. My official first day as a stockbroker was St. Patrick's day in 1986. I had been hired by Shearson Lehman at the end of 1985, and started going through all the training leading up to that. For a few years before that I worked at EF Hutton in their financial planning department. It's pretty hilarious to tell people that I was doing financial planning in 1983 and 1984, but-

Tim Mullooly: It wasn't as popular as it is today.

Tom Mullooly: Very different from what we're doing now.

Tim Mullooly: We wanted to use this episode to look back over the span of your career and highlight a few points that keep coming up year after year, decade after decade, and things that you think that the listeners should hear. So in terms of the markets and the economy, what are some of the main things that you've observed over the last 35 years?

Tom Mullooly: Thanks. I don't want to turn this into some old guy talking about, "When I was your age I…" I don't want it to be anything like that.

Tim Mullooly: Right.

Tom Mullooly: But there are a couple of important takeaways from my time as a broker and an advisor that are worth talking about. And the first one is that, really to steal a phrase from Mark Twain is that, "Markets and economies don't repeat, but they often rhyme."

Tim Mullooly: I feel like we've seen that just in the last few years. I mean, last year, the word of the year could have been unprecedented for what was going on in the country and in the market and in the economy, but was it really?

Tom Mullooly: We've gone through pandemics before, we just haven't gone through them before with Twitter. And so we haven't gone through them with social media and all this self-examination and sharing of thoughts and feelings as much as we've had before. 100 years ago when we had the Spanish Flu, 1918, we didn't have social media. So we couldn't really talk about how it's hurting us locally. Everybody had to suck it up and get through this thing. And they did, and it led into the roaring '20s. Doesn't mean that we're going to have the roaring twenties again. The cringe-worthy part was to talk to folks who would try and tell us that these are unprecedented times. They're precedented. There are some markers in the past that we can learn from.

Tim Mullooly: Yeah. The unsatisfying, but correct answer is, well it depends on, is it precedented or is it unprecedented? Well, some of the details of what we were experiencing were truly unprecedented, but a lot of the underlying things, especially in the markets and how the economy was behaving in relativity to the market, there are things that we had seen before, like you had brought up on a past episode of either the podcast or the video about how the economy acted in the '80s versus the market and things that we had seen before.

Tom Mullooly: Yeah. Let me walk through that in a Reader's Digest version. So in 1983, the economy was still flat. There was no growth. We had come out of the back-to-back recessions of 1980 and '81. '82, we started to see some growth. 83 was really a digestion kind of a year, talking about the economy. Everybody in 1983 was focused on how good 1984 was going to be. And in 1983, in a sideways economy, the stock market went up 20%. It went up 20% in anticipation of 1984. 1984 came along, the GDP numbers, fantastic, interest rates dropped, unemployment dropped, everybody got back to work, everybody made a lot of money, things were really good. What did the market do? Nothing.

Tim Mullooly: Right.

Tom Mullooly: So the market was actually down 3% in 1984. It went up in anticipation of good news. So in a lousy economic year in 1983, the market did great, not so much when the ink dried on the newspapers. And that's something for people to remember, that markets will go up in anticipation of better times in the economy. So the Fed lowers interest rates during a recession, historically. The markets start to move up because they anticipate that things will get back to normal. When they do get back to normal, the party may not continue.

Tim Mullooly: Right. Yeah. And I think it's important to remember that we look back on what has happened in history, not necessarily to point to that and say, "This is exactly what's going to happen in the future," or try and predict what's going to happen in the future, because even though the circumstances might be the same things could happen differently. But I think it's good to put things into perspective and know that we've been through similar times and rearrange your expectations of like, "Okay, this might not be as crazy as we may have thought." It's more of a comforting thing to remember that similar things have happened in the past and we're okay.

Tom Mullooly: So that line, I love having old lines like that in my back pocket because they do stand the test of time. So markets and economies don't repeat, but they often rhyme just like history.

Tim Mullooly: Over time, if you zoom out far enough, markets tend to pretty much go up into the right. What have you observed in terms of how the market performs and how that changes depending on how often you look at the market?

Tom Mullooly: So let's take a drive by cliche stadium. So I'm going to throw a couple of old cliches out there to drive my point home. There's a saying that I learned early on in the business, that your investments, your portfolio, your account is like a bar of soap, the more you touch it, the smaller it's going to get. So stop moving your money around.

Tim Mullooly: Leave it alone.

Tom Mullooly: Right. So, the second thing that I'll tell you is don't confuse brilliance with a bull market.

Tim Mullooly: Right.

Tom Mullooly: And right now everybody thinks they're brilliant.

Tim Mullooly: A rising tide lifts all boats.

Tom Mullooly: That's right. The other thing is that, I've often said this and people don't like to hear it because I say it at the worst possible time, is that the market often climbs up a flight of stairs, but takes the elevator down, meaning-

Tim Mullooly: Visualize that.

Tom Mullooly: Right. So the market goes up very slowly. And then when it goes down, it goes down in a hurry, because everybody gets the same idea that they want to take money off the table all at the same time, they don't want to be the last guy at the party. And so what happens is people will keep saying, "The economy is really bad. The market's really bad. Stocks are too high." We hear this, I would say most days that, "The market can't go higher. I've never seen it this high." I saw somebody last night, totally unrelated to work, and he said, "I've got all this money that I want to put to work, but I've never seen the market this high." He goes, "Have you ever seen a market making this many highs?" And I'm like, "Yeah, for 35 years. That's how it works."

So yeah, you're going to be investing at or near a high most of the time, but what people tend to lose sight of is markets will go up very quietly. And if you look at the market day by day, you will make yourself crazy, up today, down tomorrow, up today, down the next day. If you were to just spread that out and say, "What did the market do this week?" We had a lot of times in the last few months where I'll sit here, I have to look at the market every day, that's what I do. And so, it would make me crazy because I would see different parts of the market not doing well, and I think to myself, "This market's getting really sloppy. Market is starting to fall apart." And then on a Friday afternoon, someone will put on Twitter or somewhere else on social media, "This is the fourth straight week. The S&P is up for the week." And I'm like, "Oh my goodness. They're right."

Tim Mullooly: Even just zooming out one notch there from-

Tom Mullooly: From a daily to a weekly.

Tim Mullooly: … a daily to weekly, things look better.

Tom Mullooly: How much better is it going to be if you look on a monthly basis?

Tim Mullooly: Right.

Tom Mullooly: Oh my goodness.

Tim Mullooly: Yeah. And the further out you go, the better it's going to look. I think the thing that is unfortunate about the world that we live in right now though, is that scary headlines are what you see all the time in the news. Every night when I'm watching Jeopardy or Wheel of Fortune, they show a little clip of like, "What's coming at the news at 10:00." And it's like, "Someone fell out of a building. Someone else, a fire."

Tom Mullooly: My portfolio fell out of a building and it's on fire.

Tim Mullooly: Right. Yeah, but you never hear about boring, old, simple, good stories out there. That's not what the news reports. So yeah, when the market starts falling out of bed, it sometimes can get accelerated by the fact that the news jumps all over it and shoves it down your throat. I mean, you don't hear much about when the market's up 100 points or half a percent or something like that, but if the market's down, you're going to hear about it.

Tom Mullooly: If the market goes up half a percent a week, you're going to make 25% a year. If the market goes up half a percent a month, you're going to make 6% a year, still good. A half a percent a month? That's awesome. So we've had less than five years where the market has gone up without any pullback at all. The most recent one, I think was 2017 where the market went up, we had a higher close every month, the market, honestly, for the year I don't think it went down in any month. That's very unusual. And so, we have to take the good with the bad, and there's going to be days where the markets go down. And there's going to be times where the markets go down for weeks continuously. It's okay. One of the things that we like to remind folks is when we help you project what you're going to be living on in retirement, we factor in crappy markets, we factor in years where the market may do nothing or give us negative returns. You're still going to be okay.

Tim Mullooly: Right. Yeah, it was never a part of the plan for the market to go straight up through the end of time.

Tom Mullooly: So, there's many times where the markets will very quietly in a stealth-like manner, go up like it's climbing a flight of stairs, very quietly, six points a day, 20 points a day, very slowly, very quietly, and then take the elevator down to the first floor.

Tim Mullooly: Do you want to talk about the Fed put switching gears?

Tom Mullooly: Yes I do. I think it's important to talk about what's going on, almost since the time I started as a broker, the day after the crash in 1987. So Monday, October 19th, 1987, there was a huge lead up before that, but Monday, October 19th, 1987, the Dow Jones crashed 508 points for an index that was trading around 2000.

Tom Mullooly: That was a very big deal, it was 22% in one day. The very next day, I'm going to say this phrase, the world changed, because Alan Greenspan, who was the new chairman of the Federal Reserve, he had been on the job for three months, came out and said, "The Federal Reserve will do whatever it takes to stand behind the economy." People have interpreted the economy in that line to be the stock market. But it's a very interesting parallel, that since that time in October of 1987, when there has been some kind of upset in the market, something that's got people really freaked out, that the Fed comes to the rescue, and so we call it the Fed put. We used to call it the Greenspan put, but he left and then Bernanke came in and basically did the same thing in 2008.

And then Janet Yellen did it. And we've seen other Fed governors say the same things. Who's the guy who's the Fed governor in Federal Reserve Board of St. Louis? Bullard. Yeah, he came out last year and he said, "This isn't really a recession, it's a manmade shutdown of the economy." I use that line a lot because he was accurately describing what was going on, but we've seen Fed governors and Fed chair people come out and really resuscitate the markets. And so I really believe that when things get really bad, if you're on social media, you'll see phrases like buy the dip, or buy the effing dip. And you know what? It really has been the right thing to do because the Fed has come to the rescue many times. And basically if you try to outsmart the Fed, you've been wrong.

Tim Mullooly: Right. I was going to say that this idea of the Fed put doesn't mean that there hasn't been plenty of opportunities to lose money in the market.

Tom Mullooly: Yeah.

Tim Mullooly: The markets have gone down a significant amount throughout that time. It's just the fact that you needed to give it time to work itself out to get back to where it was and continue moving higher, because the market was down 40-something percent in 2007 and eight, and then we saw a 35% last year. So it doesn't mean that the market's not going to go down.

Tom Mullooly: So a couple of thoughts on that. From August of 2008 through March of 2009, that six-month-ish period of time was probably the only time in my 35 years where it really paid off to be 100% out of stocks and out of bonds, in cash. The only time in 35 years. I cringe when clients call and they say, "I don't like the market," or, "I don't like what the president is doing," or, "I don't like what Congress is doing," or, "I think taxes are going up. I want to put all of my money in cash." That's a terrible decision and it's fatal, because you will never get back in and you will miss a big chunk of the move. We're just not that good at being able to pick our spots to get in and get out, nobody is. And so, the idea of going all to cash worked exactly one time in 35 years.

Tim Mullooly: And it only worked if you timed it absolutely perfectly.

Tom Mullooly: And it works for six months, that's all.

Tim Mullooly: Right. Six months and you would have needed to time the move out perfectly, and then also time the move back in perfectly as well.

Tom Mullooly: Now having said that, there's a lot of grisly old guys like me who say, "A lot of these people have never been through a bare market." And we did have a bare market last year in 2020 with the pandemic. But I think when people talk about, "You've never been through a bare market," I'm using air quotes. What they're talking about is a guy that I used to work with who was a broker at the same office as I was out on Long Island, his name was Bob Bonagura, and a good guy. He told me that when he was a rookie in the business, 1973, 1974, that was a bare market. It lasted two years. It seemed like the Dow never went up. Now at this time, the Dow had just broken through 1,000 and then gone back down. So the Dow was trading in the hundreds, 800, 900. And the market would go down four points today.

The day before it went down, seven points. The next day it would go down six points. I mean, it would hardly. Trading volume dried up. The markets went nowhere. And if they did, they went down. And it lasted for nearly 24 months. That is a bare market. We haven't been through that, but I also think that the Fed moves a lot faster. And so that's why this Fed put concept is really important, because they're going to do what it takes to keep the economy moving along. The Fed's got three written mandates, but I think they have a fourth. So their three mandates are they want to keep the economy growing, they want to contain inflation, and the third one that they've added in the last 30 years or so is they aim for, they don't often reach, but they aim for full employment.

But I think there's actually a fourth mandate that the Fed has, and that's to avoid a crisis of confidence in the economies. The way they can do that is through the markets. And so, the Fed will do what it takes to help restore confidence. And a big part of this last year, to get people back on track was what they did at this time last April. So they basically took what they did in 2008, which was Congress had put together that $700 billion bailout package. That now, they pushed Congress to put through about $7 trillion worth of firepower. And the Fed showed up with another $4 trillion. The big question for me is two parts. I don't think most people realize the amount of cash that's now in the system. People can't comprehend 1 trillion let alone 7 trillion.

Okay. So when we get this kind of financial injection into our system, this is going to be a booster shot that is going to last for two, three, four, five years. So the economy is going to be in good shape for a long time. It's not going to be a regular booster shot like we get. So the second thing is that again, people haven't thought of is what do we do for the next pandemic? What do we do for the next recession? Are we going to do $20 trillion?

Tim Mullooly: It's you take the cat out of the bag-

Tom Mullooly: Can't put the genie back in the bottle.

Tim Mullooly: Yeah, exactly. It would be hard to do anything less than that next time, but the world is different from the last time. And when this happens again, the world will be completely different from how it is today. So even from 2008 to 2020, the world changed a lot.

Tom Mullooly: Right. So the numbers will change, but people don't change in the sense that people still freak out when they see negative numbers on their accounts, people still freak out when they see the headlines where they're talking about the stock market, people worry about when they lose their jobs or when their neighbor loses their job. So I think human nature doesn't change. We've come to expect that when there's a lot of turbulence in the markets, we're going to get phone calls. That's the way it is.

And we also, on the flip side, when the markets are going well, we get a lot of people who like to brag. That's okay too, it comes with the business that we're in. And talking about the business that we're in. I think there's a fourth point that I want to mention after 35 years, is the difference between, and this is something that most people still do not understand, even after being around the block for 35 years, most people don't understand there's a difference between a broker and an advisor. No one's ever explained it to them. Being an investment advisor is vastly different from being a broker. I didn't realize when I got into the business in the '80s, that I was going to work 100% on commission, and that I had to sell. It wasn't until I was in the job that it finally dawned on me that this is what I really had to do, that I'm a salesperson.

Those 16 years as a broker, it bothered me that I was making commission and earning a living for me and ultimately for my family, but I wasn't doing the best that I could to help individuals move towards retirement or really grow their money. And so-

Tim Mullooly: It didn't matter.

Tom Mullooly: … it didn't matter. So, one of the things that I used to point out to people was, when I worked at Lehman, they had plaques on the wall for Broker of the Month. Those weren't awards for people who made the most money for their clients. Those were for the people who had the most commissions that month. So, it's totally different when you're working with a broker, they're working in a sales capacity. An investment advisor has a fiduciary obligation to do the right thing all the time for their clients. That is what I got into this business for, that is what we're doing now after leaving that world in 2002, and setting up this firm back then, we're coming up on almost 20 years of doing it the right way, in my opinion.

Tim Mullooly: Well, I think that's a good place to wrap up episode 350. Thanks for sharing some of the knowledge over the last 35 years. Thanks for tuning in, and we'll catch up with you on the next podcast.