**Ep. 225 - Tesla, Crypto Scams, & Monthly Bills - Transcript**

**Tom:** Welcome back to the Mullooly Asset Management Podcast. This is episode number 225. I'm Tom Mullooly, and along with me today is Brendan Mullooly, and we are going to be discussing some topics of the day. We're going to kick it off with something Facebook announced recently.

**Brendan:** Facebook is trying to team up with some big banks. They want to share data with them and somehow get a, it seemed like a payment process working, embedded right in Facebook so you can more or less shop in app, which why wouldn't they want that?

**Tom:** Sure. I understand that Apple Pay, like a lot of Apple products, starts out slow, gains momentum over a few years' time, and then all of a sudden they're the elephant in the room, so I understand where Facebook wants to think ahead about future revenue streams. Makes a lot of sense, but just seeing a headline like this, "Hey banks, give us your data," holy moly. This is like the last thing I want. It's like telling a secret to chatty Cathy, your neighbor. It's going to be all over town.

**Brendan:** It's bad optics based on what has happened with Facebook recently, but if you trust banks or other social media companies or internet companies, if you trust anybody with your data and you think that it's not being shared, I'm not sure I buy that in any capacity. If JP Morgan tells me that, I don't think I'd buy it any more than I buy it from Facebook.

**Tom:** Right.

**Brendan:** They're all using it to sell advertisements to people. You get things in the mail or email and it's like, "Why the hell am I getting this? I don't even understand. I didn't sign up for this." They're exploring and apparently they haven't gotten any positive feedback from the banks who want to do this, but I think they're going to continue doing it because just thinking of a company like Amazon, you want it to be as seamless as possible.

I want to go on Amazon and buy something and have it be a good user experience, so if Facebook can make that seamless where you're double tapping a picture of some item and then they already have your processing information saved into your account, then it's ordered and showing up a day or two later, I don't know, maybe they'll be successful with that, or Instagram, if you see something you like on there. I don't know.

**Tom:** I don't know. I'm staying on MySpace.

**Brendan:** Yeah, you and Tom from MySpace?

**Tom:** Yeah, that's right. I actually am Tom from MySpace.

**Brendan:** Wow. Nice to meet you.

**Tom:** Yeah. Another headline that we saw recently, traders are talking up cryptocurrencies and then dumping them. What? How could they do that? That's so unethical.

**Brendan:** Right now I'm reading Devil Take the Hindmost, which is a market history book of all these manias and crashes that we've seen. This stuff has been going on. This is what happened with stocks back in the 16 and 1700s before we had securities laws, so we have securities laws now because people were doing things just like this where they were talking up something based on nothing more than hearsay. There's no earnings or profits or anything to suggest the stock price should go up, but people get sucked in and it feeds off itself, and some people make some money off of it.

**Tom:** 15 or 20 years ago, we used to call it pump and dump.

**Brendan:** Yeah, like penny stocks, like Wolf of Wall Street, Jordan Belfort.

**Tom:** I saw this on The Sopranos, so it has to be true.

**Brendan:** Right.

**Tom:** The whole idea with cryptocurrencies is that they're unregulated.

**Brendan:** Exactly, so this is tough because with securities, it was like, alright, so we're going to make these securities laws because we don't want people being blatantly taken advantage of and we're going to adapt these over time as new schemes come out, as they will for the rest of time. This is always going to exist. In an industry that prides itself on unregulated, it's tough. What's the solution here? You can't regulate cryptocurrencies. That's the whole point of them is that they're unregulated.

**Tom:** Right. That is as we said in a previous podcast, that's a feature, not a bug.

**Brendan:** Yeah, so I'm not sure how you stop stuff like this from happening when-

**Tom:** They want to stay unregulated.

**Brendan:** Yeah, exactly, or they want it to be some kind of meritocracy where everybody is validating each other's purchases or whatever.

**Tom:** I don't want to take this podcast off the rails, but talking about things that are unregulated and what companies say and things like that, I'm just going to say two words, funding secured. This blew up Twitter recently. Elon Musk said that he's considering taking Tesla private at $420, funding secured.

**Brendan:** Right.

**Tom:** Now, he didn't say $420 a share. He said $420, and he said he's considering it. I don't know. Funding secured for taking a company private at $420 a share, that's like $80 billion for a company that's already upside down in debt. The debt that they issued last year is rated like C-AA. That's terrible.

**Brendan:** Yeah, so they would have to pay off some of that debt and then also buy out the shareholders that want to be bought out. Apparently, Elon Musk has some kind of indication of the percentage of shareholders that would or would not want to be bought out in the event that they do this, but also I'm not sure how they're going to get around the idea of having public shareholders in a private company because you have to disclose information to regular retail public shareholders if you want to be a public company. You can't be private and give them that information that satisfies the requirements and you can't be public and withhold that information, so what does he really want here?

**Tom:** There's so many things. There's way too many questions that come from a five word tweet. If you're a shareholder and you go along with this scheme even if it is real, how do you eventually decide when you want to sell the money or you need to sell the shares? What's the valuation? How do I get my money?

**Brendan:** I'm not sure.

**Tom:** Who do I sell it to?

**Brendan:** You literally can't do that. You've got to have a lot of money to even have the ability to do that. If you're not an accredited investor, you can't really own private shares of Tesla, so I don't know how they're going to get around that one.

**Tom:** Yeah. I understand that seeing the stock price move up and down every day is a major distraction, and having to come up with a quarterly earnings report is a major distraction and it makes the companies, I think most CEOs would agree, it makes the companies focus on short-term results instead of long-term goals where you want the company to be. From that perspective, I completely understand where he would want to be a private company and not a public company. I think this guy just needs to get off Twitter more than anything else.

**Brendan:** I don't know. I get the idea that quarterly earnings are ... But if we know that they're a distraction, like all the points that you just made, then do they have to be? Does the CEO or the board, do these people have to bend to the whims of shareholders?

**Tom:** Somehow Jeff Bezos got around that.

**Brendan:** Yeah. I'm just not sure. Do you have to game the earnings per share metric to beat the estimates this quarter? Do you have to do that? No one's there with a gun to Elon Musk's head to make him beat quarterly earnings. He can run a company that just doesn't subscribe to that. I'm not sure. Like you said, Bezos has done this, but everybody else is playing these games still for the most part. I'm not sure I buy that it's such a big distraction that they have to manage with a short-term outlook. They don't have to do that if they don't want to.

**Tom:** A sidebar discussion to this is think about all of the analysts at all these different firms that follow publicly traded companies. How many analysts at Wall Street firms and banks follow Home Depot? A lot. Okay, so how is it that Home Depot was able to beat their earnings per share this week by 21 cents? No one was even close to where this number came in, and they're a huge company. They're a member of the Dow Jones. They talk to analysts all the time. How does this happen?

Again, I'm going down a rabbit hole when we're talking about earnings and pacifying Wall Street and shareholders and things like that, but I completely understand where a CEO would say, "Hey, having to meet these quarterly numbers, I don't know."

I think Bezos wins salesman of the century for being able to convince people that he needs a long leash, a long runway to make Amazon work. Amazon's been public for about 20 years, about 80 quarterly earnings reports where he's got to talk about the fact that they're not showing a profit. Pretty good.

**Brendan:** Yeah. I think that just comes with the territory of being CEO of the company.

**Tom:** Having a big picture.

**Brendan:** It's like every night after the game, the manager of a baseball team has to talk about the game as if there are really answers to the questions that reporters are asking.



**Tom:** We're going to see, as we saw in this story that was in the Wall Street Journal about traders are going to be talking up cryptocurrencies and then dumping them and costing people millions of dollars. In the unregulated world, this stuff's going to happen. You signed up for that when you get involved with these unregulated securities.

**Brendan:** Look, and that's not to say this isn't happening with stocks still. You might have more recourse if something is really a fraud, but I think you're just as big an idiot if you're buying penny stocks that are getting pumped and dumped by celebrities, like 50 Cent or whoever was doing that recently. This stuff still happens to people.

**Tom:** I think it was the girl from The Wonder Years who was coming out with a crypto, an ICO.

**Brendan:** This can happen. It's not exclusive to the vehicle of cryptocurrencies, though. There's still fraud in stocks. There are always going to be people who will believe these stories despite the fact that anybody with a brain should know that they're not real. They're made up. They're a fraud or there's nothing behind this, but people love penny stocks.

**Tom:** They're sexy stories.

**Brendan:** Right, but they're not even. It's like, "Oh, I can buy 100 shares for $100. This is great." People don't think in percentage terms. If I make 100% on this investment, it doesn't matter if I had one share that cost $100 or 100 shares that cost $1. I'm still going to make the same percentage returns, and what are the odds of making those percentage terms in a type of investment? If you're talking about a penny stock, sure, there's the lottery outcome where it goes to $2 and you just doubled your money, but realistically, what are the odds of that?

These aren't real companies. They're penny stocks for a reason. If they were good, they would've had an IPO and it wouldn't have IPO'd at a dollar or 50 cents. These companies have something wrong with them or it's a fraud, so you should realize that and you should probably do some homework to look at things like cryptocurrencies, too, because it's the same kind of mindset that allows people to be taken advantage of in situations like this.

**Tom:** When we talk about penny stocks and low price stocks and things like that, there was another headline that I saw on the CNBC website, a simple trick that I'm using to save over $500 on my bills. Okay, not the same thing, but I figured it was a good segue into this.

**Brendan:** No, it works. This article is an interesting approach to fitting into a budget and more or less, it amounted to advice to share things like streaming services, like Spotify. You can have a family account and save some money or Netflix, you can have a handful of users on the same account and it's no problem, or your cell phone, you can often bundle with family or even friends, but that has its own implications that they discussed in the article, like your credit score could be damaged by sharing a family plan with friends because then you're on the hook for them.

**Tom:** It's a little dangerous.

**Brendan:** Yeah. You've got to trust who you're doing it with, but the idea that you can save a few bucks here and there by bundling things like this or sharing services with friends and family, I like that idea, and if it works for somebody and allows their monthly numbers to be what they need to be, that's great for them.
I take almost the opposite approach when talking to people about budgets and keeping their cash flows looking good where I'd rather see people focus on the big decisions that they have, like housing costs, like either their mortgage or their rent and transportation costs, like how far you're traveling, proximity to your job, your car or train costs or subways or whatever you're taking.

Focus on these big things, and healthcare. Big percentages of your income are tied up into these kind of things if you look at your monthly costs, and if you can get these kind of numbers right, then it doesn't matter if you're sharing your Netflix password with your brother or going to Starbucks for a latte a couple times a week, but people seem to take the opposite approaches here.

You can nickel and dime and clip coupons and if that works for you, that's great, or you can make the big decisions right and then just have some discretionary income to spend on silly things or to not buy what's on sale at the grocery store or spend some extra getting fresh produce or stuff like that.

**Tom:** It makes sense. I think it always makes sense to be reviewing your monthly bills and just see where the money's going, but like Brendan's saying, look at the big rocks in the river and focus on that stuff first before you start taking the whipped cream out of the latte.

**Brendan:** Yeah, but like what you just said, and Tim put it this way recently in one of his Living with Money podcasts is you want to audit these decisions that you're making. You want to audit your cash flows and make sure that where your money is going makes sense, and if you can make adjustments, it's easy to quantify.

It's like, "Okay, so I've spent X on coffees over the last year now. If I stop doing that, what is it really going to net me and is that going to make a dent in what I'm trying to accomplish here, or what if I could move into a place where my rent were lower, what would that do?" Think about the tradeoffs and then make your decision from there with whatever you're comfortable with.

**Tom:** There was an article that we all read recently on Morningstar from Christine Benz that we have spent a lot of time talking about, The Keys to Financial Success are Incredibly Mundane, Sorry.

**Brendan:** Yeah. Christine talked about, she related these mundane decisions to how people are always looking for the next fad diet that's going to make things just work for them, like if they could just eat the right stuff, they'd be able to go out and run a marathon or something. She related that to people who think that if they just had the right mix of investments, that the rest of their financial life would take care of itself.

She pointed out that there are people in our industry that cater to that mindset and will tell people, "Yeah, you know what?" She had a friend, for instance, that had visited an advisor who said, "You need to own more small caps and I also think that you should own this annuity that I want to sell you." This person went to Christine and Christine was like, "I think you probably just need more cash reserves and you should up your savings rate and not worry about your mix of investments," because for all intents, it's fine. There's nothing glaring that needs to be changed about it.

I think a lot of people fall victim to that mindset and it's an easier and sexier sell for the advisor to say, "Oh yeah, we'll just work some magic here, tweak the portfolio and it's going to fix the fact that you don't save enough money."

**Tom:** That really is the bottom line is that so many folks are just not saving enough. That would repair a lot of situations that we see coming in here in the office.

**Brendan:** Some of the things that she talked about were the saving and spending rate. That's a big one. She also talked about investing in yourself in terms of furthering your career because your earnings power in terms of what you're taking home in pay, if you can invest-

**Tom:** Going for an advanced degree or some kind of additional certification.

**Brendan:** Yeah, or even just learning by reading outside of work to further your career or networking amongst your peers. These are the kind of things that can change the top line number for you from when you're doing financial planning. What you're starting with, if that number's higher, it makes everything easier, doing things that maybe will allow you to earn more money for yourself, having a sane investment allocation, so not trying to be 100% in stocks instead of saving 2% more of your income for the year.

Find out the balance where you can have a portfolio that's not going to be all over the map and the savings rate that supports it, that they work and that they get you to where you need to be in the future, these kind of things, but these things are boring, so it's easier to tell somebody, "Oh yes, we have this special mutual fund or annuity or investment product that's going to fix all your problems."

That's an easier sale than having these tough conversations with people about actual spending and savings habits. It's a little tougher to make somebody do, but that's what's going to move the needle.

**Tom:** It is, and it's a tougher conversation to have here at the table or on the phone with someone to talk about savings habits, but they really want to talk about their investments in many cases.

**Brendan:** Right. Look, it's not to say that investment selection and your allocation are entirely irrelevant. You can make mistakes there too and you need to make sure you're doing stuff that's right. One of the points Christine touched on is to keep costs low and focus on behavior, too, but to start the conversation with the investment allocation I think is starting in the wrong place.

I think you want to start in some of these other spots and eventually work your way to that and make sure that the allocation is serving the purpose and the plan that you need it to, but to begin there without any of the backstory, it's not going to fix your problems.

**Tom:** Brendan, if I were considering moving to Michigan or Oklahoma and I had a million dollars and I'm ready to retire, am I going to be okay?

**Brendan:** You are. We saw this article about how far a million will take you in retirement in each state. Those were some of the top five in terms of how many years a million dollars would last you. Can you guess some of the bottom five?

**Tom:** Well, I'm going to guess New York and New Jersey.

**Brendan:** New Jersey was not one of them. It was not even close to being one of the top five, but it was not a bottom five.

**Tom:** That's surprising.

**Brendan:** Right? I was surprised to see that, too. We tend to think things are worse than they are, like this is the worst state ever or something.

**Tom:** Did you know everybody is moving out of New Jersey?

**Brendan:** Literally everybody, right?

**Tom:** Everyone. Turn the lights off.

**Brendan:** Yes.

**Tom:** Last one to leave.

**Brendan:** Right.

**Tom:** What are some of the other ones?

**Brendan:** Hawaii, Alaska, California, New York.

**Tom:** Okay. Now, this is where your retirement funds will not go as far.

**Brendan:** Yes. They won't go as far in Hawaii. Makes sense. It's a remote group of islands. Alaska, the same. California and New York you would guess, and Maryland rounded out the top five. Maryland is expensive. I think that again, you're generalizing with states here. It's not to say there aren't less expensive parts of New York, or Maryland for instance I know, some parts are much cheaper than others but the closer you get to DC, the more expensive it becomes.

**Tom:** I can't believe ... Obviously when we talk about New York, they think about the New York City metro area, how expensive. It's out of control, but pretty soon, you're going on an annual canoe trip to a part of New York state that doesn't seem very expensive to live in.

**Brendan:** No, it's beautiful out there. It's the middle of nowhere and-

**Tom:** This is one of the northernmost areas in Sullivan County.

**Brendan:** Yeah. Across the Delaware River is Pennsylvania, but most of our drive to get up there is in New Jersey. That's a beautiful area and you could probably get a cabin in the woods there with a neighbor not within eyesight for something reasonable, I would assume, so yeah, that's not to say that all of New York is outrageous. The taxes obviously, the same rates apply across the state, but it's not to say that you're paying the same for groceries out where we go canoeing that you do in New York City at the bodega on the corner.

**Tom:** Right. Okay, so what are some of the best places in the United States to live where a million dollars in retirement will go further?

**Brendan:** You hit on a couple of them. Mississippi, Oklahoma, Michigan, Arkansas, and Alabama is where your money goes the furthest. A state like Pennsylvania was right in the middle. It was like 25. It was right there in the center. Obviously, a lot of the country is right there in the middle in terms of costs, so you have these outliers on either end that are either really cheap or really expensive in terms of cost of living and a lot fall in the middle.

**Tom:** I think it makes sense to look around. Do your homework as you're getting ready to retire. Hey, have you ever thought about relocating to another part of the country? What are the costs going to be like? I think it's not safe to assume that your costs in New Jersey are going to be the same if you're living in the Carolinas. It's probably going to be less.

**Brendan:** Right.

**Tom:** But we don't know.

**Brendan:** I think that retirement ends up being a good time to think about stuff like that because at that point, you don't have kids around the house anymore. You're finishing your job, so that's not tethering you to a location anymore, so you have the ability to explore options like this where maybe your money can go further for you in retirement, but we joked about it before.

The idea that people are flooding out of New York and New Jersey or these expensive states while they're still in the prime earning years of their career, good luck finding your executive job in New York City somewhere else, in Arkansas or something. You're not going to.

It would be huge change and if you're in your prime earning years, let's say like 40s and 50s, probably still have kids. Are you going to uproot them from school and move them across the country, too, so you can go and get a completely new job that pays less just to save some money on state income taxes? Probably not.

I read an article actually on Bloomberg and they were talking about a lot of ultra-wealthy people from Connecticut, New York City, hedge fund types, the idea of owning a second home in Florida and how maybe you could get away with that. I read that the laws for New York specifically, they'll follow you around. You need to use a burner phone and cash when you're in New York because the number of days that you're there, you're not getting away with it, so you either need to actually move to Florida or just get over the idea that you can somehow find a loophole to live in New York but pay Florida or not pay Florida taxes. A lot of people like talking about leaving places because the cost of living is high, stuff like that, but realistically-

**Tom:** It's a huge, huge decision. It's a huge decision and it comes with a huge cost. I know that almost 30 years ago, I moved to Chicago. It seemed like every night I was doing one of those Ben Franklin T squares, like the pros on one side, the cons on the other. It was pro, pro, pro, pro, pro. There was only one con on the right side of the page and it was, "I'm going to miss my family." I had no idea how much that outweighed all the other pros that were on the left side of the page. It's a very serious decision.

**Brendan:** There's always tradeoffs and it's not something that you can just look at the finances of and make a decision on.

**Tom:** Yeah. Thanks for tuning into episode 225 and look for us on the next podcast coming up real soon.