Tom: In episode 35, we're going to talk about knowing your investments.

Welcome to the Mullooly Asset Show. I'm your host Tom Mullooly, and this is episode number 35. We had a hard time finding a Met, a successful Met, who wore number 35, so we're going to talk about Billy Dean who wore number 35 back in 1985, maybe one of the biggest busts that we've ever seen on the Mets. He was a first-round draft pick. They were thinking about drafting him ahead of Darryl Strawberry, but then he went to go play college. It was messy, and then it never really worked out. Of course, he's gone on to great fame as a general manager in Oakland. Another 35 that played for the Mets, Charlie Williams, he's kind of the answer to a trivia question, the only player ever traded for Willie Mays.

The format that we take in these videos is we get questions that come in from our clients or questions that come in from our viewers or topics that they want us to cover. If you've got a question, get in touch with us. We'd be happy to talk about it and answer your questions without any kind of cost or obligation, and you may see it on a future video. Casey, what's on tap for today?

Casey: I got a call from someone about an investment opportunity that sounds pretty complicated. What do you think I should do?

Tom: This is so important to talk about. I really think that there's a lot of investors and a lot of stuff that's jammed into individual investor accounts that investors don't really understand what they are. We'll sit down when we do an account review, someone's bringing in an account from another firm, and we'll ask them, "Hey, what is this? Can you describe it to us?" In most cases, they can't. They just don't know what it is. They said the broker thought it was a good investment so I just went along with it.

The SEC is preparing a case right now against Merrill Lynch regarding a $150 million sale of some structured notes. It was in the Wall Street Journal a couple of days ago. People are upset, even the brokers are upset, because this structured note came out in 2010. It was offered at $10 a share. It was redeemed in November of 2015, so about five years, it was redeemed at 50 cents per unit. Just thinking about an investment that goes from $10 to 50 cents, that's terrible. People should be outraged, right? Where's Bernie Sanders? Did the investment do what it was supposed to do? I don't know. I don't know enough of the details. What I did read was that Merrill Lynch said this product was created as a hedge. That's really important.

Sometimes we'll do hedging with clients. It may not be called a hedge, but we do things because we buy them for their protection. For example, suppose a client has stock that they bought years and years ago at a very low cost, now it's appreciated quite a bit. To protect the investment, what we'll talk about with them is buying a put, an option, that if the stock begins to drop they can basically put it back to the other side of the transaction and get their money out. That's a hedge. What happens to the hedge, however, if the stock just stays at those high prices and never comes down before expiration, the put expires worthless, zero. It's like buying car insurance. You don't want to have a car crash, but you pay the money out every year for a premium and in the event that you do have a car crash in your investment account you've got some insurance, you've got something that will help bail you out and make you whole again.

I don't have enough information to talk about that specific case, but it comes down to investors not knowing what these products are in their account. It may also be the brokers themselves may not have enough information or know all the ends and outs of what could happen or what could go wrong with different investments in their client accounts. That's really, really scary.

One of the big drives that's happening this year is this fiduciary obligation that brokers are now going to have to assume. They have to exercise a fiduciary standard of care for their clients to make sure that the investments in their account are right for them, it's not only suitable but it has to be prudent for them. Part of that comes with knowing what you own. One of the things that I've learned to say to clients and to myself over the years is, "Look, if I can't explain this investment to a fourth grader, it doesn't belong in one of my client accounts." That's really important. You should adapt that belief as well. If you can't explain what's in your account to a fourth grader, man, don't do it. That's just crazy. If you don't know what you're doing, don't do it. People say, "Options, that sounds risky, or hedging, that sounds risky." You know what? Driving a car is risky if you don't know what you're doing. If you can't explain your investments to a fourth grader, don't do it.

Another thing that I've learned over the years, I had a sales manager way, way, way back in the 80s who told me something I never forgot. He said, "Look, if they have to pay the brokers more commission to sell a product, run away. It's probably not good for you, and it's probably not good for your clients." Stick them with basic stuff; stocks, we like exchange-traded funds too because their low cost and they're simple to explain. Stick them with individual bonds and bond funds. The simple stuff is really what makes it work. Investing doesn't have to be complicated, but if you feel that you've got a complicated investment in your account or something that your advisor or broker may have shown you and suggested it to you, get in touch with us. We'd be happy to answer your question, walk you through whatever ins and outs you may have.

That's all we've got for episode 35. Episode 36, one of my favorite Mets, we're going to talk about it on Tuesday. See you then.