

Our Thoughts on Bitcoin, Emergency Funds, and more

Tom Mullooly: Welcome to the Mullooly Asset Management Podcast, this is episode number 204.

I'm Tom Mullooly, and I'm here with Tim Mullooly.

Tim, what are we going to talk about today? I say that in all the videos that we do.

Tim Mullooly: I think that's the first time you said it in a podcast, though.

Tom Mullooly: So we get questions that come in all the time, some of them are from clients, some of them are people who write questions in on a message board, and the ones that we find online, we like to pull down because they are common questions regarding financial planning, investment management, and portfolio type questions.

Understand that we're not going to get into specific investment recommendations on a podcast because they're personal, we don't know your situation. A lot of times we don't get the total profile information about people when they're posting questions online.

But they do provide good springboards into bigger conversations about some of these topics.

So, Tim, why don't you pull up the first one.

Tim Mullooly: Sure thing, the first question for this episode asks, 'How should I invest my emergency funds so that I keep earning interest on it?'

The summary says, 'I have established a solid emergency fund, I know that this needs to remain liquid, but I still want to earn interest on the amount. Where do you suggest I invest the money?'

Tom Mullooly: I wouldn't get too crazy with it, we get variations of this questions almost every week, and people normally write in with phrases like, 'I want to maximize my return on my emergency fund.'

No you don't.

Tim Mullooly: That's kind of like an oxymoron, maximizing the return on your emergency. Right, it's an emergency fund, so you need to have it if an emergency happens.

Tom Mullooly: So this morning coming into work there was a pretty serious accident right at our intersection right outside the office. A pick-up truck was stopped at a red light and a Jeep

Grand Cherokee plowed right into the back of it. The Jeep, I mean that Grand Cherokee, big car. That was totaled.

And the truck, the bed of the truck was actually bent, so I think both vehicles are going to be totaled. That's why you have an emergency fund, because someone behind you doesn't see that you're stopped at a light while they're texting on their phone.

Tim Mullooly: Right, that's not something you can plan for. It's not like those people woke up this morning, or a couple months ago knowing they were going to be in a car crash and, you know, had money ready to go. That's what the emergency fund is for.

Tom Mullooly: Right, and so, this is money that you have to tap into on a moment's notice. So, there is no way to maximize this money. I would have it available in a money market account, where you can draw on it that day, or the next day, and get it pretty quick.

Even putting money into a CD, you're going to have a penalty if you need to liquidate the CD, and it may take a couple of days to get a check.

Even with interest rates as low as they are, you're still going to have some kind of cost to get to that money. I just don't think it's a good idea to be tying up the emergency money.

And again, we typically stress to our clients that you need to figure out your fixed expenses, not your variable, but your fixed expenses each month, come up with a number and plan on having a minimum of three months, and hopefully a little more in the bank as your emergency fund.

It's not sexy, it's not something that's supposed to be a cash cow so you can buy bitcoin or something with the money.

Tim Mullooly: Right, and I would say the best return you could get on an emergency fund isn't a nominal one, it's one in a mindset point of view, knowing that your money is safe and if you need it you can get to it.

Tom Mullooly: Right.

Tim Mullooly: So that's the return that you're getting, it's not an amount of money you return, it's a peace of mind return.

Tom Mullooly: The other thing, if you have kids or if you have a family, you know that you may not be the person in your family who needs the money in a pinch. It could be someone in your family that's going to need the money in a pinch.

Now, I'm sure that all of our listeners are excellent, above average drivers, but the other members of the family may not be. So, that's why we have emergency funds. Good question, we get some kind of variation on that almost every week.

Tim Mullooly: Yeah, it seems like almost every episode, but it's a good message to reiterate every week.

Tom Mullooly: Right.

Tim Mullooly: So the next question asks, "If I have a 401K through my company, can I also invest in an exchange traded fund, or ETF through a broker?"

The summary is just a one-liner. It asks, "Is it illegal to have multiple investments, for example in a 401K and an ETF?"

Tom Mullooly: Is this the big sigh for the week?

Tim Mullooly: I think it is.

Tom Mullooly: Every week, in every podcast, we seem to have one question that just makes us sit back and sigh like oh boy. I read a statistic, I'm probably going to butcher this, but you'll get the gist of what I'm about to say.

Of the people who enroll in a 401K, 81% of those participants never change the investments inside their plan. Never. They never go in and move the money to the money market.

They never go in and move the money more into bonds, or more into the stock market, or get more aggressive, or get more conservative.

I think a lot of folks who are enrolled in a 401K don't realize that they have the ability, they have the power to go in and direct the changes in these accounts.

Tim Mullooly: There's just, there seems to be a lack of education on the plans parts to their employees of just not really explaining all the ins and outs of the plan that they're in, because these people just don't know that they can, you know, make changes to their accounts and different funds within the accounts.

Tom Mullooly: But there needs to be a better job of educating the participants, and that is really lacking, and I hate to say it, it's been lacking for 30 years! That participants simply don't get the

education, it's amazing to hear people say in 2017 that, "Well I get a 3% match on my contributions through my employer, so I contribute 3% to my plan."

And like we mentioned in a podcast a couple of weeks ago, people think, well I contributed 3%, my employer matches that at 3%, so I'm checking the box and I'm done for my retirement, my retirements going to be all set with 6% of my income going into a plan.

If you make \$100,000 that means \$6,000 a year is going into this plan. After 30 years, you'll have contributed \$180,000, and you'll get some kind of return on that. But do you really think that your retirements going to be covered?

Tim Mullooly: You're going to be eating dog food at that point.

Tim Mullooly: Or you know, not as drastic as that but you know, that might not be the amount of money you want in your retirement to live your life the way you want to.

Tom Mullooly: It's going to be a sad wakeup call I think for a lot of people as they approach, get closer to retirement and they start to see the numbers that are set aside. And there's nothing you can do about it because that ship has sailed.

You know, once you don't max out your contributions and then put more away, time's working against you now. It's a real shame and I think this is going to be a terrible problem for everyone over the next, probably the next 30 years.

People are going to be running out of money.

Tim Mullooly: Right.

Tom Mullooly: It's really tragic. I think younger people get a better idea of how much they need to save for retirement, you know the one thing that I can say with certainty in this industry is that while we may not be able to tell you what the markets going to do next year, or even the next 5 years, what I can tell you for sure is that everything that you buy in the future will cost more.

So even saving enough to have the same income in retirement is going to leave you short. Just food for thought.

Tim Mullooly: Yeah, and I'm definitely going to link in the show notes because that was a pretty good episode of the Mullooly Asset Show, the video that we did basically saying that these contribution limits aren't suggestions, so we'll look for that in the show notes.

And to answer this person's question, is it illegal to have multiple investments?

Tom Mullooly: They will not be arrested.

Tim Mullooly: Yeah.

Tom Mullooly: I can guarantee that. So that's perfectly okay.

Tim Mullooly: Yeah, you can definitely have a 401K at work and have accounts elsewhere that have ETF's in them, and stocks, and bonds, anything you want.

Tom Mullooly: You can also change the investments inside your 401K, if that's what this person was referring to.

Tim Mullooly: Right.

Tom Mullooly: Tim, there's something else that's been buzzing around the office today. Today especially, it's been picking up over the last few months but we've had a breakout so to speak in the number of calls that we've received. Do you want to talk about it?

Tim Mullooly: Yeah, I can tell when someone in the office is talking about this certain investment just based on the one side of the conversation that I'm hearing, and we've been having it more and more over the last couple months and especially the last few weeks.

You see it on Twitter, and on the news. We're talking about bitcoin.

So we figured, we would share our two cents with you here on the podcast about bitcoin and how it fits or doesn't fit into our type of investment portfolios.

Tom Mullooly: So I'll start out by telling folks that Priceline was one of the hottest dot com stocks in the late 90's. Stock, don't quote me on this, but the stock was triple digits and traded over \$100 in share, and was held up as one of the more successful dot com stories.

When the dot com industry collapsed in 2000 and 2001, Priceline traded for \$1. \$1. Today, I think Priceline's like \$1,400. It really has come roaring back, and there have been a couple of real winners. Amazon.

You know some of these stocks have done really well.

One of the high flyers back then was Yahoo. Not anymore.

AOL. Not anymore.

Pets.com. Not anymore.

A lot of these investments, and I say that with air quotes, no longer exist. And they were the, they were sliced bread.

They were they hottest thing going. Everybody had to have it. So I shared with the guys in the office the last few week's stories of clients who we still have today who called up in the 90's, begging me to put their entire account into America Online. AOL.

Tim Mullooly: That should have been our big sigh for the episode. Yikes. Their entire account.

Tom Mullooly: Their entire account. So we are now starting to get similar kinds of calls where people are saying, "Why can't we put the whole account into this." Or, "Maybe we could just put 100 bucks into this."

So the risk when you're going into a really speculative investment, I always ask people what is the risk in something like this.

"That I could lose money."

No, the risk is, you can lose 100% of your investment.

Tim Mullooly: That's exactly right. And bitcoin right now is exactly what you're describing. It's very speculative, and yes it has gone up a LOT recently, but the, you know, putting your entire account into something like that is borderline reckless, and it's not something that we would do for our clients here.

Tom Mullooly: Just to give people an example of what's been happening.

Last week, bitcoin crossed \$8,000 for the first time. Yesterday, and we're recording this on a Monday, yesterday I was home, I got four alerts.

I get these alerts on my phone, I'm about to turn them off. I got four alerts on my phone. So in one week, bitcoin went from \$8,000 to \$9,000. Yesterday it crossed \$9,000, \$9,200, \$9,300, and \$9,400.

One afternoon. If this isn't the sign of a bubble, then you don't know what a bubble is. So this is insanity what is going on. Will it continue?

Tim Mullooly: Who knows?

Tom Mullooly: That's right. We don't know. We don't know. It could go to \$25,000. And we could look really stupid. But I think, Tim, what we want to talk about in regards to bitcoin, is that the likelihood of fiduciary investment advisors buying bitcoin or trading bitcoin, probably not going to happen.

Tim Mullooly: At this point in its lifespan, it's just too speculative in my opinion to, for a fiduciary to put any significant amount of money, or a client's money into bitcoin.

Tom Mullooly: There's too many questions that we don't know the answers to. There also seems to be stories of potential fraud going on with this. So there's a lot of moving parts when it comes to this and we don't have all of the answers.

Of course, if you wait around for all the answers you're going to miss the opportunity. But something doesn't seem right to me with this price action in bitcoin, and we need some more information before we could in good conscience put clients' money to work in something like this.

Tim Mullooly: One thing that I always like to keep in the back of my mind as well is that we tell people that they need to understand their investments and know what kind of.. The ins and outs of accounts they have, and funds.

The same thing goes for bitcoin and well, if someone were to call in and say, "I want to put all of my account into bitcoin." One of the questions I would ask them is, "Okay, explain to me how bitcoin works."

Tom Mullooly: Right.

Tim Mullooly: What is a bitcoin?

Tom Mullooly: Right.

Tim Mullooly: The odds are is that they probably won't be able to explain it. Thus proving, they probably shouldn't have their entire account in it. So that's one thing that I'd like to combat their requests with, is "explain how it works".

Because when it comes down to it, whether it's bitcoin, or an ETF, or a stock, you should know how you're investments work and what kind of investment you're putting your money into.

Tom Mullooly: Right, same thing with shorting volatility.

Tim Mullooly: Right.

Tom Mullooly: There's a lot of people now who are quitting their jobs to just short volatility and day trade at home. They don't understand the liability and the risk that they are taking on by doing things like bitcoin and shorting volatility.

Now we should probably do another podcast just on that, but bitcoin may be around for a long time. I personally think that if this becomes a generally accepted currency, then there will be no value to bitcoin because it has to trade against another currency.

So that's the only way you can determine what the value is, is it up against the dollar, is down against the yen, is it trading versus the euro, up or down. So if it eventually becomes a generally accepted currency, what happens to the value? If it's something that the people are just flipping

Tim Mullooly: I think that seems like part of the appeal to people right now is no one really knows what it is or what it's going to be, so they're trading, buying, and selling, just based on speculation as to what they think might happen.

Tom Mullooly: The greater fool theory, which is really what doomed all of these dot com stocks 17, 18 years ago, was because people said, "Hey these aren't trading on fundamentals anymore, not that there were any fundamentals with the dot coms.

And so I'm going to buy xyz.com in the morning and right before the market closes I'm going to sell it up 5 points."

Tim Mullooly: As fiduciary advisors, that's not something that we do.

Tom Mullooly: When we sit down with clients, most of the time we're talking about managing money that is going to be used for a college education at some point in the future. Or, to live on in retirement, which is the bulk of what we do.

Tim Mullooly: It's usually part of some sort of greater financial plan that's going to help them navigate their life down the road years from now, not necessarily--

Tom Mullooly: Next week.

Tim Mullooly: You know at the close tomorrow.

Tom Mullooly: So it's hard for us to see where bitcoin fits into a prudent investment portfolio that's built to last. We'll see what happens with bitcoin, but interesting topic and I'm sure that we'll get more and more calls and questions about this.

If you've got a question about financial planning or portfolio management, or investing in general, get in touch with us. You can find us on the web at mullooly.net or you can pick up the phone and call us, we're in New Jersey at 732-223-9000.

Tim Mullooly: So that's going to do it for episode 204 of the Mullooly Asset Management podcast, thanks for listening and we will see you on the next episode.