Casey Mullooly: Hello and welcome to the Mullooly Asset podcast. This is your now almost permanent host Casey Mullooly. I'm joined here by Tom Mullooly.

Tom Mullooly: Hello.

Casey Mullooly: This is episode 361.

Tom Mullooly: Highway 361 for Eric Clapton fans.

Casey Mullooly: Throwing it back to Eric Clapton. Okay, okay. This week, we're going to talk about something that's hard to talk about, and that is an idea that one of our friends in the business Carl Richards has been trying to drive home. And that is that money is not in the math department, but in the psychology department.

Tom Mullooly: It's a really good way of putting it because sometimes we'll meet with clients or talk to clients on the phone and we'll start talking about how the investments are doing or how they're not doing, and we'll start using numbers and I'll hear people say, "Well, I'm not really that good at math." And I want to reach through the phone or reach across the conference table and just say, "This isn't about math." It's not.

Casey Mullooly: Yeah. In Carl's ... Is this a post or an email?

Tom Mullooly: Yes.

Casey Mullooly: So this was a post on his website, which we'll link to in the show notes.

Tom Mullooly: Behavior Gap. Whether you're an advisor or an investor, go to this website. There is tons of wisdom.

Casey Mullooly: Yeah, he's great. He's amazing.

Tom Mullooly: He's fantastic. So just to give you a little background on Carl Richards, I don't even know if he still has clients, but he started out as an advisor, just like us. And one of the things that he was really, really good at is he started to discuss concepts with his clients and friends. And he got to the point where he could draw a story on the back of a cocktail napkin. And I mean, some of these cocktail napkins, you go into people's offices and they're framed on the wall.

Casey Mullooly: Brendan has one in his office.

Tom Mullooly: Brendan has one in his office. So these things are classic, because just like the old saying, a picture says a thousand words, these things are fantastic.

Casey Mullooly: Yeah. Also wrote for New York Times for a long time.

Tom Mullooly: Well, he got discovered because one of his cocktail napkins made it all the way to Ron Lieber who writes the personal, or wrote the personal finance column for the New York Times. Talk about just a fortunate break. I mean, that got him on the fast track to a lot of exposure.

Casey Mullooly: Yeah. Yeah, really great stuff.

Tom Mullooly: And he's a great guy.

Casey Mullooly: Yeah. He's funny, charismatic. We've had some interactions here and there on Twitter and nothing but good things to say about Carl. So the point that he's driving home is that, I think he says in the article that we're taught that money is things like two plus two, we know that it equals four, but when we rip open our credit card statement or we look at our investment accounts each month, we see dollar signs there, but they stir something up inside of us, and then we're fighting with our spouse. We're feeling down on ourselves.

Tom Mullooly: We're worried.

Casey Mullooly: We're worried, we're concerned about the future. We're not sure if we're doing the right things with our money and it's just a mess usually. He also goes on to say that just because we're worried, concerned, stressed out, whatever about our money doesn't mean that we can't just avoid talking about it.

Tom Mullooly: That's a problem, because a lot of people just don't want to talk about it.

Casey Mullooly: It's easier to just stick your head in the sand and not even think about it.

Tom Mullooly: Money can cause a lot of emotional feelings, but it can also cause some significant problems. And before we talk about the investment side, I just want to talk about the debt side for a moment and not talking about problems. We talk about on the investment side, how people have to stay in to gain the compounding. And I'll get to more of that in a moment. But compounding works in the opposite direction, it works against you with debt. For the past year and a half, we're recording this in June of 2021, for the past year and a half, people have been for the most part on lockdown. A lot of people lost jobs. A lot of people didn't have money coming in. A lot of people didn't pay their debts or they didn't pay the rent. They didn't pay their mortgage. They didn't pay their student loans.

Tom Mullooly: All of that is going to start again. And unfortunately we're we're going to get to a point in September, October, November, December of this year, these first couple of months, people who don't make payments or cannot make payments, are going to learn a lot. And there's going to be a lot of people who are going to want to hide, and they're not going to want to talk about it. It's like talking about your problems that you have. It's healthy sometimes to talk about your problems and just get things off your chest. Unfortunately when it comes to debt, if that's a problem and you fall behind and all of a sudden now this interest is starting to compound, it can really get away from you fast.

Casey Mullooly: Yeah. I think one of the driving things of why it's easier just to ignore it sometimes is they feel ashamed that they had to take out all this debt when they see other people in the world and they think that no one else has these problems, but we see these problems all the time. That's one of the things that we do if we're in these situations is to just normalize it for them and be like, "Look, okay, these are the circumstances."

Tom Mullooly: It happens. Yeah.

Casey Mullooly: This is what's done. What's done is done. Let's turn the page and try and work out a plan for moving forward.

Tom Mullooly: Yeah. So, important, if you're in a situation where you've got some worries about that, about hey, I'm going to have to start paying rent again, or I'm going to have to start making my student loan payments or other issues like that, talk to someone. It doesn't necessarily mean talk to us, but we're here if you need us. But get it off your chest, because the worst thing you can do is try and hide. It's not going away.

Tom Mullooly: I read a story over the weekend about more and more Boomers are now approaching or retiring with student loan debt. Some of it is because they wanted to go back to school and learn something new, or they're still carrying their kids' student loan debt, and people are now paying decades of payments and they're not making a dent in the amount. These things can really snowball out of control. So didn't really intend to talk about managing debt, but it's a balance sheet issue. It needs to be addressed.

Casey Mullooly: So that's the debt side of it. You said you wanted to talk about the debt side before the investment side. So what are some common feelings-driven issues that we see surrounding people's investments?

Tom Mullooly: Well, one of the things you learn pretty early on as a stock market participant is you'll hear people talk about fear and greed and how those two emotions can really drive markets and your own investments beyond any kind of rational thought. I think one of the hardest questions to answer that an advisor gets is, hey, the market can't continue like this. That means either going up or going down. The market can't continue to go up. I mean, this has all got to end, right? It's all built on a house of cards. This is all going to end. Or on the flip side, this market can't continue to go down like this, right? Oh yes, it can. I've seen it. So yeah, it happens. It's a real thing.

Casey Mullooly: Yeah. So, our job in that situation would be to create some perspective around the situation.

Tom Mullooly: Yeah. I never thought I'd be one of those people that just offers perspective, but I've hung around so long that I've seen so much of what goes on in markets. And like you, I think we're both good students of history. So another cringe-worthy quote that I get from clients is, "Well, we've never been through this before." Oh yes, we have. This has happened before.

Casey Mullooly: Right. And that again, just normalizes it, because it's just like, oh wait, we have been through this before. And look, we came out of that.

Tom Mullooly: It all worked out.

Casey Mullooly: It seems in the moment, it seems like, oh great, we can't stop you from losing money, but here's some bright perspective for you. It's like, great. Thanks a lot, man.

Tom Mullooly: So one of the things that I think is really evil about our business is that there are lots of people in our line of work. I'm using that as a big umbrella.

Casey Mullooly: Broad term.

Tom Mullooly: Broad term that there's people in our industry who will prey on people saying, "I can't stand this stock market volatility. Get me out." And that is a trigger buy signal for people who sell products that say, "You can have all the upside of the market without any downside risk." That is a lie. That's a lie. It doesn't matter if it's structured notes or structured bonds or structured CDs or private placements or annuities, it never works out the way it's advertised. Never.

Casey Mullooly: It's sad, but it's true. I mean, that's the rationale behind the whole in and out decision when markets are tanking. It's going to feel so good, and folks just want that weight off of their shoulders of watching this account go down and down and down, and they want to get all out to stop that. And it's a short-term high almost. It's a short-term relief of, oh, I don't have to worry about this anymore.

Tom Mullooly: Brendan phrased it really well. When you want to get ... "I just want to get out of the market." Like you just said, "I can't stand watching this thing go down every day." Brendan said, "You know what, if you really insist on this, we'll do it. We'll take you out. And you'll feel good. Maybe for two weeks, you'll feel good. But after that, you're going to realize what a mistake you made." You will. And it's been proven year after year after year after year. So it's a mistake. You'll feel good for a very, very short period of time, and then you have to go back and correct your mistake. How do we get back in? We sold a few weeks ago or a few months ago. The market's higher now. I feel kind of stupid going back in. I've lost count of all the conversations we've had with people who tried to do exactly that, and now they're coming to an advisor.

Casey Mullooly: Right. So it's tough because in that situation, it's the feelings that they're having around the money. The fear is it's such a visceral reaction because it's people's life savings most of the time. So their future capacity to retire or live the life they want is what's at stake. So on one hand, an advisor's role is to understand that and to normalize that, but on the other hand, it's keeping them from acting on it. So it's a difficult rope to walk on because it is such a serious thing and the stakes are seemingly very high. But on the other hand, we also have to try and help folks not make big mistakes.

Casey Mullooly: I think that that is what Carl was talking about in his post when he's saying, "Look, you have to have a plan. You can't put greed, you can't put fear, you can't put panic into your spreadsheets. You can't project when or how, to what degree that's going to happen in the future." But what you can have is a plan. Look, what is this money for? When we build plans, we're building all of these market dips and market euphorias into these plans. I'm not saying that we're never going to change the plan because that's wrong.

Tom Mullooly: That's not realistic.

Casey Mullooly: That's not realistic. The plan is going to change. But what an advisor's role is, is to stop clients from making the big mistake and to just keep nudging them along that path to where they want to end up in the end.

Tom Mullooly: You touched on a really important part of our discussions that we have with clients. We ask all the time, tell us what this money is for. That will help determine how we ought to invest it. If you're going to tell us that I'm going to need a portion of this money in the next two or three years, I already know, no matter what the balance is, we're going to have some of this money sitting in bonds. It's just the way it is. We need to do that. So if we can segregate what a client needs over the next year, two, three, four years and put that money aside in bonds, we can put the rest of the money to work in the market and we don't have to worry what the market's doing for the next three, four, five years before we have to tap into it. Long-term track record over every rolling three years, every rolling four years, every rolling five years, pretty good.

Casey Mullooly: Pretty good. But that just goes to show how important it is to communicate that, because some of the hiccups we run into with folks are they say, "Oh, I just retired. I need that money next year." And we're investing for the next 20 or 30 years. So then, there's just a disconnect there, and that's why it's so important to not stick your head in the sand. Especially if you're working with an advisor, you have to communicate these things, because like you said, it will definitely impact the strategy moving forward.

Tom Mullooly: So years ago, you'll remember, before we started using some of the software tools that we have at our disposal, we used to send surveys out to our clients or groups of clients. And we would say, "Hey, if the market goes down 10%, if you have a $300,000 account, that's $30,000. If you have an $800,000 account and the market goes down 10%, that's $80,000." Because what we found, we did it in dollar terms, what we found was that we would say, "We think the market might go down 5% or 10%. You okay with that?" And everybody says, "Oh yeah, I'm okay with that." But when you show them, hey, at some point in the future, this account may be down 80, $80,000 or $100,000 or for some clients you may be down $2 million, down $2 million. You still okay with that?

Casey Mullooly: Yeah. It hits different when it's in dollar terms and not percentage terms.

Tom Mullooly: And they're pretty good at reminding us too. Like, "Tom, three or four months ago, this account was worth this." They always pick the extreme highest intraday value. "And I'm down 275 grand since then. How am I going to get my money back?" Well, first of all, it never was your money because you didn't sell at that point. The values are just going to be all over the map. But if this money is for the rest of your life and you're, I don't know, say you're a cop and you retire at 50, unless you're planning on taking that money out today, tomorrow, next week, next year, we're going to invest it because you've got 35 more years we've got to cover.

Casey Mullooly: Yeah. Rarely is someone completely out of the market. There will at least be some small portion of their account still invested in stocks.

Tom Mullooly: But here's the point is that we are constantly talking to clients about their feelings. We're trying to pull it out of them, what their feelings are when the markets are up and when the markets are down. When they're down, they volunteer how they're feeling. When the markets are up, a little harder to get. One of the things that really has surprised me over the years has not necessarily been greed itself. That does feed on itself. But also envy. And that's a weird virus, envy, because we'll get calls that'll be like, they'll start with an upfront saying, and it'll go something like this. "Hey Tom, I want you to know I'm really happy with how things have been going."

Casey Mullooly: But.

Tom Mullooly: Yeah, there's always a but.

Casey Mullooly: Always.

Tom Mullooly: "But I was talking with my buddy and we started investing around the same time and we were just comparing notes and he's got way more than I have. I mean, way more. What are we doing wrong? We should have more money."

Casey Mullooly: Yeah. Yeah, especially nowadays with social media and everything. It's hard not to compare yourself to your peers and your friends and people that you know, but I think that just drives the point home more where you have to define this stuff for yourself. Look, you're not investing for retirement to retire your buddy's retirement or to retire your neighbor down the street's retirement. This money is for you. What is it for? Define that. We'll help you define it. We might have to pull it out of you, but that's our job. And once that is clear to you and to us, a lot of the other pieces start to fall into place.

Tom Mullooly: Right. I'll also add a PS. In the few instances where I can actually look at what this neighbor or this buddy of someone, if I can actually look at the numbers, we can actually see that the yard sticks have moved, the goalposts have moved, the numbers changed.

Casey Mullooly: No.

Tom Mullooly: Yeah. And we find out that the actual annual return's pretty close. Pretty close in almost every single circumstance.

Casey Mullooly: Yeah. I also think that a lot of the time they're using that as a way to question us about what we're doing and see if we're still on the ball. It's like, "Hey, did you know I'm going to retire in two years?" It's like, "Well, no, because you didn't tell us, but now we do." Yeah, sometimes it's just a way to be like, "Hey, are you sure we're doing the right thing? Because this guy's doing something different seemingly, and he's doing something better." So yeah, greed, envy, comparison. It's never been easier to stay on top of what everyone's doing.

Tom Mullooly: One of the other things that I've also found is that some of the folks that we'll interact with who call when things are really great, and then they start to compare with their neighbors and friends, or they talk about how much they could be making, "We've got this money sitting in bombs doing nothing. Maybe we should just take that and put it into the market too." These are, in many cases, the very same people when the market goes down that say, "Holy moly, we've got to do something. We have to protect." I think there's a little too much time being spent watching CNBC. Can I just talk about that for a moment?

Casey Mullooly: You want to talk about CNBC?

Tom Mullooly: Yeah, I know. Sorry. I don't think that people understand that there are very few investment advisors who work with individual clients who get a chance to speak on CNBC. We know someone very well who used to be on CNBC a lot, has been invited to come back onto CNBC many, many times, refuses to go back on because right before the camera turns on, they ask them, tell us where you think the market's going over the next three weeks, four weeks, six weeks. Where's the market going? And you must have a call. And that is so unimportant for the individual investor. If you're managing a bond portfolio, that might be important. If you're managing a hedge fund, that might be important. It's also someone's opinion. It's like armpits, everybody's got two of them. So I don't think that really has any value to institutional investors, and it's got even less value to individual investors.

Casey Mullooly: Yeah, totally agree. I mean, we know. We've harped on this before and we will continue to. These financial networks are selling ads. They need to keep your attention.

Tom Mullooly: So, they're going to be sensational. The headlines will be sensational. It almost feels like if you got that channel on, and it's not just them, it's Bloomberg, it's all of them. So you almost feel like you're stupid if you don't take some kind of action.

Casey Mullooly: You didn't see the dollars plummeting and the inflation trades back on?

Tom Mullooly: Yeah.

Casey Mullooly: What? It's hard to keep your eye on the ball. That's why we're here. That's our role is to make sure you keep two feet or maybe one and a half feet on the ground. Stay grounded. Check in with your plan. We're here to talk about these things. We're here to help you manage your debt, manage your feelings around your investments, your retirement. These things are going to come up. You're going to feel pretty much every emotion on both ends of the spectrum. So it's important to have that perspective, to have that person you can go to and talk to that will-

Tom Mullooly:Keep you grounded.

Casey Mullooly: ... keep you grounded and not be too hot, too cold. Nice and easy down the middle.

Tom Mullooly: Right. I love this line that he wrote. "Money's not in the math department. It's in the psychology department." The numbers can all add up, but if money is making you crazy, you need to speak to somebody. Good message for episode 361. Thanks again for tuning in.