THE BEHAVIOR GAP

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When emotion gets in the way of making smart financial decisions, the distance between what we should do and what we actually do is the “behavior gap.” Using simple drawings to explain the gap, author Carl Richards demonstrates how to think about your approach to investing and how to recognize and avoid common, emotionally driven mistakes.

CARL RICHARDS: I want to talk a little bit today about just I think we’re in a moment in time right now—and I’ve been saying this for a couple of years, but I really feel like it’s really starting to happen—where there is so much change going on in our industry, really revolutionary change, and I think for all of us in the room, that represents a massive opportunity. I know that for some of us, it’s scary, but I think it’s really a massive opportunity. I want to try and convince you of that and also maybe give you just a few things that I’ve seen on how I think we can really together change the world.

And before I do that, though, I think it would be important to give you a little bit about my background. I was married in 1995, and at the time, I was an undeclared major at the finest football institution in the country, the University of Utah. And, now, listen there are jokes in this presentation, but that wasn’t one of them.

[Laughter.]

All right? So I was an undergrad at the University of Utah, undeclared major, and I was also the newest hire at a landscape company, so I was literally the low man on the totem pole digging ditches for a living when my wife decided to marry me anyway. And I came home one day—she had graduated from the same fine institution in finance, and she had open—if you remember a while ago, we used to have these newspapers—right?—the big fold-open ones? And back when we had jobs in this country, there used to be that section called the help wanted ads. And I found my wife looking at the help wanted ads, and I said, “Cory, what are you doing?” She said, “I'm
looking for a job.” I said, “Well, you already have one.” She said, “Oh, I know. I’m looking for you.” I said, “Okay, great. What have you found?” And she had found what we thought for sure was—well, what we both thought was a security guard job. And I know this is a big room, so it might be hard for you to see in the back, but I am perfectly built to be a bouncer or a mall cop or some sort of security guard.

[Laughter.]

So I thought, hey, this will be great. So I go apply, I can work in the evening, I can still go to school, this will be great. I go apply. It was Volt Temporary Services. I remember it was a rare rainy day in Salt Lake City, Utah, where I lived at the time, in the summer, and I go in to apply, and they had narrowed it down—I got most of the way through the interview, and they hadn’t said a word about kung fu or self-defense skills, and they were asking me all about some stuff that I had heard about in passing, but I didn’t know what they were—mutual funds and stocks and bonds and—well, it turns out it was a securities job, not a security job, and I didn’t know the difference.

[Laughter.]

So I made my way through this interview, and they narrowed it down to two of us, which tells you a little bit about the applicant pool that day.

[Laughter.]

And they came out and they said, “I’m sorry, Carl, we’ve only got one position, and we’ve offered it to this gentleman.” And the guy next to me turned to me and said, “Hey, man, I don’t want the job. You take it.”

[Laughter.]

So that was sort of—that was my triumphant entrance into the securities industry. A couple weeks later—and this, by the way, is no reflection on the fine company that I went to work for, but a couple weeks later I found myself at Fidelity Investments—they had a huge call center, a national call center, in Salt Lake—and we were in a training room, a little bit like this, not quite as big, but no windows, and we were learning how to—we were learning everything we needed to get our licenses, and by this time it was August, right? Now, if you remember August of ’95, there was a big event in the equity markets. If you remember August of ’95, this is too big of a group to play question-and-answer yet, but August of ’95, Netscape went public. Now, for those of you in the room that don’t remember that, I just promise you there was a time in the Internet before Google, right? It actually happened. For those of us who were around, if you remember, Netscape went public, they priced—now, keep in mind, I’m in a room, I don’t even know what a mutual fund is yet, learning how to pass my exams, and Netscape goes public, and they originally priced at $12 a
share. They delayed openings—I'm sure many of you remember this—they delayed opening and repriced at $24, so before one trade was placed, $12 to $24, and they closed the day at $76.

Now, I was in training learning about spreadsheets and math and how to use calculators. And so I thought, after I got over the fact that I wasn't a security guard, I thought I was there for a math job, right? And 2 plus 2 always—it doesn't matter how scared or nervous or excited I am, 2 plus 2 always equals 4. So I thought that's what my job was. So that day they came in and said, “Look, we need all of you on the phones.” The call volume went through the roof, everybody wanted to get in on this IPO, so they called us all out. Now, they pulled me aside and they said, “Hey, Carl, listen, every question you get asked, your answer is, ‘Please hold.’” Right? “That's the answer you give.”

[Laughter.]

So I get out—and I remember walking out of that room where we were learning about math—right?—and onto the trading floor there at Fidelity and being struck by the difference in emotion. Right? I don't remember making any grand conclusions, I just remember thinking, wow, I'm not in Kansas anymore, right? The people were excited, and people were mad, and there were all sort of things going on that I remember being, “Wow, this isn't what I thought I signed up for.”

So a couple of years later I left Fidelity and I went to work for a big brokerage firm that will go unnamed, but it used to have—it has a bulleted symbol and is now owned by a bank.

[Laughter.]

And while I was there, I was trying to figure out what my job was. If you've been in this industry very long, you know that it's been sort of a—I mean, the last 20 years have been kind of confusing trying to figure out what your job was, and particularly for me. So I would always go ask, like, “Hey, what's my job?” I thought that would be a good idea, to understand what your job was, if you understood the rules. I've always thought like, hey, I want to know how I win at this. That was always my thought. And I got told—what I got told over and over was that if this was the average investment, my job—and we even have a word for this—right?—my job was to find this, you need to go find the above average investment. Of course, we all know that as alpha, right?

So I thought, okay, if that's my job, I better get some training. I went and got a professional designation taught at a business school back east, I thought, wow, I should really know what to do here. I followed everything that I learned. I did manager search and selection stuff to find the best investment for my clients. And then I kept having this repeated experience over and over again. And I thought this was just a problem for kids from the hills in Utah. Every time I found—right?—with a really disciplined, you know, system—every time I found what I thought was going to be the above average investment, and I committed my money or my clients’ money to it, it quickly became the not so above average investment, like right after I bought it. And I
had that experience a couple of years in a row, right? Like it took me a couple of cycles to figure out that this wasn’t going to work. You know, I had created a really disciplined, structured way of buying high and selling low and charging people money for it.

[Laughter.]

And I thought this isn’t a good business model; it’s not going to work for very long. So I was about ready to leave the industry and go to law school, which is what you do when you don’t know what to do with your life, right? Isn’t that what you do?

[Laughter.]

So I thought, okay, I’ll go to law school. And about that time, I read a research report that said it wasn’t just about kids from Utah, right? On average, we all do this. If you were to put the average investor in here—this is where my art skills come in—they are sad, right? On average, the average investor underperforms the average investment, and the only thing I could figure out that gap was due to was, sure, there’s some expense there maybe, but the only thing I could figure out was it was due to poor behavior. And so I started running around putting this up on every single whiteboard I could find with my clients and saying, “Guess what? It turns out this isn’t my job.” I wasn’t very good at it anyway, but it’s not my job. My job really is just to fill in this gap. I thought, wow, I could do that, that’s pretty cool. Because what this told me was I could own a mediocre investment—by definition, average—and if I behaved correctly, I would outperform 99 percent of my neighbors. And that’s what life is about in America anyway—right?—outperforming your neighbors.

[Laughter.]

So I thought, how cool. And as you can tell, it’s kind of a hard concept to explain to people. So I started drawing it on every whiteboard I could find, and it looked like that. Right? It’s what kept me in the business. And shortly after that, I started putting these up on a little website, I called it “The Behavior Gap,” and I started putting these up on a little website. My mom and my sister said they were reading it. It turns out my sister was lying, it was just my mom, for a really, really long time.

[Laughter.]

But I put this image up. Now, let me walk you through a story here. I get kind of fired up about this because I just don’t understand—I mean, I don’t—this has got to change—right?—this behavior, and I don’t really know how it’s going to change, to be honest. After 15 years of trying, I don’t know that we’re getting any better at it as an industry, and I don’t think we’re getting any better at it, you know, on the journalist side. I don’t know how this is going to change because it’s
fundamental human behavior. But let me just walk you through my favorite example. This is the only time I think I'll use numbers tonight.

So 1997, if you just pretend like this is 1997, '98, '99. You all remember that, right? The S&P 500 up over 80 percent in that time period, the NASDAQ up over 120 percent during that time period, and we were buying like crazy, right? We can keep track of how we behave because we track fund flows in and out of different types of mutual funds, and the record for money going into equity mutual funds in one month before this period was $29 billion. So just keep that number in mind, $29 billion was the record. Now, if we go to January of 2000, right? Now, let's just remember, January of 2000 was not here, it's not here, here, or here. Now, of course, we didn't know what was about to happen, but we did know what had happened, right? January of 2000, $46 billion. Right? Keep in mind the previous record. The average, by the way, was about $15 billion. February, which is the shortest month of the year where I'm from, $54 billion, and March, $39 billion. Right? So we were pouring money into the equity markets just in time. Does everybody remember what month we hit the market high? Right? March. Right? We were pouring money into the equity markets just in time to collectively get our heads taken off. And then you know, if you think we're crazy on the way up, just imagine what we do on the way down, we always use red for bad things, don't we? So red.

You know, fast-forward to October 2002. The market is down by, what, 50 to 80 percent depending on exactly what you were measuring? And we have for the time since we've been keeping these records, we have 5 months in a row of net outflows, which, by the way, I've never used that word. That's something I'm going to get to in a minute. I'm going to beg you to stop using words like “net outflows.” I'm going to beg you to stop using words like “net outflows.” I'm going to beg you, beg you, beg you. But in this group, just so we can move quickly, I'll use that word, right? Five months in a row of net outflows out of equity mutual funds, the first time ever that had happened. The fifth month was October of 2002. Anybody remember what month we hit the market low? October of 2002. Right? Emerging markets. Anybody—don't raise your hands—anybody become a real estate investor in 2007?

[Laughter.]

Right? Like we just keep—and I feel like we're—I don't know what we're doing now, I don't know. I mean, I'll know in 2 or 3 years, but I do know that I'm starting to read quotes in the Wall Street Journal from 22-year-old software developers who are saying, “I stumbled upon the stock market through Twitter and YouTube, and I think it's a good idea. In fact, I want to be a full-time day trader.” Right? That doesn't seem like a good idea to me right now.

So I don't know, I don't know what we're doing now, I just know that we've got to stop this problem. And as an industry, I feel like no matter if you're a wealth advisor, a financial planner, an advisor, a portfolio manager, or somebody who builds and delivers products to the public, we, as an industry, have to figure out how to solve it. And now I've gotten like three slides ahead of
myself. But I put this slide up on the Internet, and it went well, and it started to spread. And then I became the self-declared king of the obvious, and I put this up.

Now, funny thing, I got invited to speak at a conference, and I don’t even know how they found me. I got invited to speak at a conference, and I thought you’ve been to basketball games, college basketball games, where they have t-shirts, and during timeouts they shoot them out of t-shirt cannons. I thought wouldn’t that be cool to be at an event like this—right?—everybody is pretty serious, this is pretty serious stuff, and right in the middle of my talk, I was going to say, “Timeout,” and I was going to throw t-shirts into the audience, and I had 50 made up with this image on it, and I thought it was a really great idea. Well, it didn’t go particularly well. I went with 50 t-shirts, I came home with 46. Right?

And what’s funny is one of those t-shirts found its way to sort of a back-page blog at the Wall Street Journal, and they ran an image of the t-shirt with that image on it. Now, I don’t know if you see anything in here that’s sort of rocket surgery, but I don’t, but I was just sort of surprised by how—which is another point we’re going to get to—how much people want this to be simpler.

But that led to this email, that little back-page Wall Street Journal thing led to this email. Now, one thing I have to note, I tease—Ron Lieber is the editor—the “Your Money” section editor at the New York Times, and I think one of the best financial journalists in the country, the only guy to write the “Personal Finance” column at the Wall Street Journal and then move onward and upward to write the “Your Money” column at the New York Times. One thing you’ll need to note, apparently when you’re an editor at the Times, you get to send emails to perfect strangers and only address them using the first initial of your first name as long as you capitalize it. Right? It’s important to know.

[Laughter.]

Now, I have learned from my days as a security guard that I should just say yes and figure things out later. I had never written anything for anybody, I sort of skipped that class in college, but I thought, well, geez, this would be fun, right? I’ll do something for Ron. That would be great. I said, “Yes. How does this work?” And he said, “Okay, I’ll introduce you on Sunday,” and at the time I lived in Las Vegas, so this was west, my time. He said, “I’ll introduce you. I’ll ask for questions. I’ll send you a question Sunday night at 6:00 your time.” By 6:00 a.m. Monday morning, I need a 450-word answer plus one of those images you draw. Now, I don’t know if any of you have tried to write 450—450 words for me is harder than 2,000, right? “Sorry for the long letter, I didn’t have time for a shorter one.”

So I stayed up all night, right? And it was going to be seen by a few people. I thought, well, this is my big break, you know, this is a newspaper a few people read. So I stayed up all night, wrote it, and this is the image that went with it. I thought this was really clever. Anytime CNBC is on in
your dentist’s office, we know we have a problem, was sort of my point, like it’s time for us to get serious about this. Go to the movies instead, that was the gist at the time of blog posts.

Now, where I’m from in Utah, we generally try to be nice to strangers, or to each other, period, but particularly to people we don’t know. It’s like just part of the deal, right? You just be nice. Nobody warned me—right?—because I woke up Monday morning and I was like this is going to be great. I log in and there’s 21 comments, and I was thinking from my—like, hey, these will be congratulation notes, right?

[Laughter.]

“Hey, buddy, good job,” like that sort of thing? And nobody told me that that’s not what—so I logged in, and I read these 21 scathing comments, and I thought, geez, people who read—people who comment at least, at least on my stuff, people who comment don’t follow the same rule as we do in Utah.

But we were going to do this again every day for 4 days, so I had to get over it quickly. I called my mom, she helped me through that. And then I called Ron and said, “Hey, listen, if that’s the way it’s going to be, I have to be able to take the gloves off, too,” and he said, “Carl, it’s an opinion piece. Do whatever you want.” This ran shortly thereafter.

[Laughter.]

Now, listen, I owe—I owe it to you to tell you this. This would have been fine, right? I have two teenage daughters. And so because it ran that way originally, I still show it that way, but in hindsight, I probably would have just done just “Teenagers” would have been fine. I was trying to get at the stereotypically, very stereotypically, the herd behavior of teenagers, and I used an unfortunate very specific term by making fun of teenage girls, and I would never want my daughters to feel in any way inferior in terms of their ability to invest. But one thing I need to point out, remember the comments section, right? If you want to find out how things—try making fun of teenage girls in a relatively liberal audience like the Times and see what happens to you, right?

[Laughter.]

So from there, we ran this one soon after that, which went a little better.

[Laughter.]

And these all have sort of a point, right? So that’s the sort of short history on what’s happened.
Now I want to tell you sort of the serious piece before we get into a couple things I think we can do to make a change. I have a good friend named Craig, and Craig worked his whole life as a real estate developer. And if you know anything about real estate development—right?—you sort of boom and bust your whole life, and you just hope the last project—right?—because if the projects go well, you roll them into the next one, and they’re getting progressively bigger, and the stakes are getting higher, and you just hope the last one goes well so you can retire.

Well, Craig was at the last one, and he had a great advisor. His advisor wasn’t me, his advisor’s name was Carter, and they had—I’m just trying to make this really simple. It wasn’t exactly this simple, but pretty close. All right? They had 50 percent of Craig’s money in his retirement plan, in—let’s just say on the equity side, they had 50 percent in large cap growth, 50 percent in large cap value. And they had one of the sort of poster children—this is ’97, ’98, ’99 again—one of the poster children for the sort of growth mutual funds, you would all recognize the name. And also a very strict value manager, you would all recognize the name, too. 50 percent. ’97, Craig starts to notice like, “Wow, my account is doing really well,” and he is slowly selling off this development, and he said to me, “Wow, why would I ever do another development?” Right? “My account is doing whatever, double digits. Why don’t I just put all the money there and I never have to shovel any more snow?” And this was enough money—it wasn’t airplane money, but it was enough that he could be done. If he was careful, he could be done for sure.

So he slowly starts moving all of the development money as it sells into a portfolio similar to his retirement account. So in ’97, he’s got a whole bunch of money in there. And the large cap growth manager does something like whatever, 35 percent, and the value manager only did like 14, right? Remember those days? And Craig called and said, “Hey,” what did he call and say? He didn’t call and say, “Rebalance, please, because I’m a disciplined—,” he called and said, “Fire those silly value managers and move all the money to the growth manager,” and luckily Carter had enough sort of trust built up to say, “Whoa, whoa, whoa, let’s not do that. In fact, I was calling you to tell you to rebalance,” and they did. Craig said, “Okay, fine.”

‘98, the process repeats itself, and Craig once again sort of begrudgingly says, “Okay, whatever, rebalance.”

‘99, Craig says, “I’ve had enough.” And I remember we were having dinner over the Christmas or New Year’s holiday, so literally right at the end of the year. Think about that. The end of the year in ’99, and he tells me, “I’ve had enough. I called today. I fired all of my value managers. I moved it all to my growth funds.” Right? And you know the story. Craig is still at work, right? And it’s pretty serious business.

So the question is, What can we do about it? Because we all—I mean, it’s almost sort of—you know, especially the 2000s, almost kind of funny in hindsight now. You know, I’m not sure I can
still—I can’t talk about 2008, 2009 with any degree of humor yet, we still need a couple more years for sure, but this mistake isn’t very funny. And so the question is, What can we do about it?

And I have—I just want to walk you through five things, five or six things, that I think we can do. After receiving a lot of email and speaking to lots and lots of groups over the last 3 to 4 years about this, here are three or four things I think we can do as an industry to make a difference.

One, the first thing is to admit that we’re part of the problem. I always think it’s really—Don Phillips at Morningstar calls this the third rail of the industry, right? All of these time-weighted rates of return versus dollar-weighted rate of return, which is where that gap comes from, if you’ll allow me, I’ll call it the behavior gap. That’s where that gap comes from, it’s just measuring time-weighted versus dollar-weighted rates of return. Well, most of the money in mutual funds is advised, right? It gets there because an advisor put it there. So if there’s a big difference between the time-weighted and dollar-weighted rate of return on mutual funds, and most of the money is advised, does it take me—I mean, I shouldn’t have to explain that we’re part of the problem, right? And it’s easy to understand why we’re part of the problem, because we’re constantly thinking about this stuff. We feel like it’s our jobs. As an industry, we’re constantly creating new product.

You know, we didn’t even talk about 2000. I remember—well, I won’t mention any names, but we all remember the Internet mutual funds that got launched in January and February of 2000, right? And we’re always sort of creating new product, and it’s easy to sell to clients what they want, but it takes a little bit more to have them purchase what they need, and that’s a big, big difference, and often we’re facilitating this mess that’s been created.

This is one of my favorite new sketches. Anyway, I get kind of fired up about how these happen. I was standing in the line at Chipotle, and I had written the column for the week, and I didn’t know how to illustrate it, and I was standing there, and it was about bond trading, markups in muni bonds, that’s what the column was about, and I thought this was really clever. It’s the first time I ever got to use a really fat-tipped Sharpie.

[Laughter.]

And you all sort of witnessed history. I’m soon going to do one in color. It’s been 5 years coming. I’m really excited.

Anyway, which one would you rather have, right? Opaque or transparent? I don’t know if you know this, but our industry has to be one of the most opaque industries in the whole world, like nobody really knows what they pay. It’s really hard to even figure it out. Now, you’ve forgotten because you’re in the industry. For us, it’s easy, like, oh, well, you pay 17 basis points. That doesn’t mean anything to a normal person. Right?
I was talking to a friend who said he sat down with his—I believe it was his mother-in-law, but somebody really close to him, and he sat down and was calculating her largest expenses, and she had no clue, but her largest single item on her income statement—the largest single expense was the amount of money she paid to own the mutual fund that happened to be underperforming, by the way, right? It's benchmarked. But she had no idea, and she had been doing that for years and years and years.

The other reason I think we're a big part of the problem is this dilemma that—and, again, this isn't being sexist because there is actually data to back this up—this is how men make decisions, right? We call it research, but what we do is we say, okay, I'm going to make a decision, and then I'm going to go find—then I'm going to go do my research, and my research is going to consist of systematically dismissing everything I don't agree with and including everything I do. Right? You get two emails, and one says 20 pages' worth of data to back up what you've decided, and the second one says 20 pages of data arguing against what you decided. You delete one and open the other, right? And so we're constantly looking—you've got a new theory about how the market is going to do for the next 2 years? I guarantee you you'll find evidence to support it. So I think that's why we're a part of the problem.

The second thing is start talking about money. And I'm not talking about the markets and investing, I'm talking about money, like personal finance. And we have to realize at the end of the day people are—we're helping people, we're facilitating people with decisions that are going to fund their lifetime dreams and goals, right? And people don't know how to talk about that stuff. We have that problem at my house. At my house, I got home from a trip recently, and my wife said to me—you know, exchanged a few pleasantries, the kids were already in bed, that was a miracle in and of itself. We sat down, and she says to me, "Karen remodeled her kitchen, and, boy, it looks great." Okay, now, let me just repeat this to see if you hear something I didn't hear.

[Laughter.]

My wife has a degree in finance, so please understand that this could have happened—I could have said, "Drew just got a new $5,000 mountain bike, it's really cool," right? This isn't a gender thing at all, it just happens to be the example I'm using. "Karen remodeled her kitchen, and, boy, it looks great." So I stood there for a minute and started calculating, of course, right? $49,162 at 6 percent is going to take us 7 years to pay off, and my answer was, "Cory, we can't afford that." And she said, "What?" Now, remember, degree in finance, right? "What are you talking about?" I said, "Well, you just said you wanted to remodel the kitchen." She said, "No, I didn't, I said Karen." I said, "I know, I know, but that means you want to remodel the—," "No, actually, you know what it means? It means you've been gone for 4 days and I wanted to have a conversation with you, and this was the entry point to a conversation," which by the way is now over.

[Laughter.]
She didn’t say the “by over” part, she said everything else but the “by over” part. And I said, “Wait, hold on. Now, I’ve been a certified financial planner for 12 years. I’ve been in the business for 15 years at this point. We’ve been married for 15-1/2 years.” And I said, “Wait, what about the Smiths and their trip to China?” “Carl, I don’t want to go to China.” I had been saving for China, right? “What about Julie and her new X5 with the leather seats?” “Carl, I like my car.” I went through 12 years that night of sort of unpacking, like, “Whoa, whoa, whoa, every time you’ve said something like that, I thought you were saying—,” “No, that’s not what I was saying at all.”

And so my point is people don’t know how to talk—you know, how to talk about money because they’re so scared. Every time we go in here to touch this thing, it turns into a fight, like, “Wait, I just opened the credit card statement. Why are we arguing?” Is this just—maybe it’s just me. No, I don’t think it is actually, right? Among the leading causes of divorce, the number one cause of adult male suicide last year was financial issues. We haven’t figured out how to talk about money because every time we go to touch it, it turns into a little argument. We expect it to be like a spreadsheet and a calculator, and it’s not because it’s emotional. Right?

I had a friend of mine had an experience that was similar. He—his wife inherited a whole bunch of money, again, not quite airplane money, but pretty close, a whole bunch of money, and she watched her brothers both moved overseas and started surfing for the rest of their lives, and I’m not saying there is anything wrong with that necessarily, but they didn’t want their kids to do the same thing. So their plan was every time their kids—their oldest was 2 when this happened—every time their kids asked for something, they were going to say, “We can’t afford this.” And this is a big problem I’m sure for a lot of the people you and I work with, right? One of the biggest problems I’ve heard is, “How do we teach the next generation to take care of the money that we’ve made?” So their answer was, “We can’t afford that.” They told their oldest son, Dillon, “We can’t afford that,” for 12 years. Right? He was 14. One day he comes in, everybody is asleep, Dad is up late at night watching SportsCenter, Dillon comes in and says, “Hey, Dad,” and Dillon didn’t get serious very often, so this was a surprise—“Hey, Dad, between Warren Buffett and the homeless, where are we?”

[Laughter.]

Right? No, idea where we were. And he realized at that point that they had been talking around it without ever stopping and saying, “Hey, let’s talk about this.” Right? “Let me teach you a little bit.”

I just had this experience yesterday with my 15-year-old daughter, who is brilliant. My wife was explaining to her, “Hey, you know, you’re not going to be able to do all the summer camps that you want to do, you’re going to have to pick.” “Why?” “Well, because there is no more—like my account is—there is no money in my—I can’t pay for that.” “Well, why don’t you use the credit card?” “Well, because the credit card, we don’t use the credit card for that stuff.” “Well, why?” “Well, because there is no money yet. We have to wait till next month when the budget
replenishes.” And she said, “Well, I thought we—,” my daughter says this, “I thought we were millionaires.” My wife told me this, this morning before I got on the flight. I was like, “What? Where did that come from?” She went with me to Vietnam for a speaking engagement. I missed the flight, the transfer, the connecting flight, in San Francisco, and I was very, very upset, and my daughter was with me, and I said something like, “Do you know how much money this is?” This is what my daughter told my wife this morning, “Dad said, ‘Do you know how much money this is costing me?’ He said, ‘$2 million.’” That my speaking fee was $2 million. So she said, “Why can’t he just go to Australia again and come home with more?”

[Laughter.]

I was like the CFA Institute is going to have to write a bigger check apparently because my daughter thinks my speaking fee is $2 million. So my point is we never talk about it because we’re so worried.

And I was taught—in fact, I was taught never to talk about money with anybody who made—actually what I was taught was I could talk about money with anybody as long as they didn’t make more than me or they didn’t make less than me, which left me, right?

[Laughter.]

And we have the old money, sex, politics, and religion, and somehow we have to change that like as an industry. And if you’re a product provider, what a beautiful place to be—we’re starting to see this more—where you’re the one bringing that conversation to people. How do you talk about money? Spouses, I get a chance to counsel some people who are newly married people in a volunteer role I play in my church back home, and I’ve asked them like, “Have you had the money talk yet?” They don’t even know what that means, like, “How do you talk about it? What are we supposed to talk—,” they don’t even know. Imagine if our industry starting having—helping people with that dialogue. You build investment products, but you’re the one that helped us have these conversations.

Anyway, once we start talking about money, we need to start talking about the right things. This can be a huge problem, right? There is so much noise, and then a little bit of information, and then hardly anything that’s actually useful. I mean, I’ve done this experiment before. Go back and think, how much have you read? When’s the last time you can think of something that you read in the newspaper that you then acted upon immediately and you were glad you acted upon it afterwards? It doesn’t happen very often. I mean, I think some tax changes would qualify. Somebody once told me when the Rolling Stones tickets went on sale, but I didn’t think that qualified. I mean, often we’re not happy, but we’re still sort of paying attention to all the noise, and somebody told me once that that dot of stuff that’s actually useful is way too big.
Now, speaking of stuff that might not be useful, I’m going to move quickly, so pay attention.

[Laughter.]

So what I—do I need to go back? I normally get a standing ovation for that one.

[Laughter and applause.]

Thank you. Thank you very much. Thank you. I actually feel kind of bad, so that’s why we move quickly. Talk about some stuff that—you know, what’s interesting is we often trick ourselves. When clients get involved in financial pornography, we call it stupid, but when we do, we often to it as research, and I think we need to be careful. Like I’m not saying that beating an index isn’t an important part of our reporting process, I’m not saying that, right? I’m just saying that it may not be as important as what the clients are trying to accomplish with their money. I could beat—I mean, theoretically, if I beat an index every quarter of my investing life, and I didn’t meet my goals, would I be happy? No. Right? And let’s just say that I never ever outperformed an index, but I met every single one of my investing goals. I think I’d be pretty happy, right?

This is my favorite slide of the whole night because it used to say, “Simplify, Simplify, Simplify.”

[Laughter.]

Yeah, that’s my favorite one.

Here’s part of the problem, I think: I think we’re nervous to make this too simple, but I’m sort of here. I feel a little bit like the Lorax, I’m coming here to talk to you to speak for the people because they can’t talk for themselves. Remember the Lorax, the Dr. Seuss guy, “I speak for the trees”? I feel a little bit like I’m coming from the people and I’m saying, “Please, please, please, make this easier for me to understand.” I promise you, I do not think your job—we have a belief that complexity is some sort of sign of intellectual gift, or we think of it as a selling tool in our industry, right? I’ll dig a hole, throw the client in it, and I’ll say, “Hey, I’m the only one with a rope.” Either way, it’s a bad model. People just want you to make it simpler. You are sitting across the table or you’re trying to help people make important decisions. As an industry, we’re trying to help people make important decisions, and we’re using words like “risk,” and somebody looks at us with a blank stare. So we say, “Oh, I’m sorry, let me fix it,” and we use “standard deviation.”

[Laughter.]

And then we go to “volatility,” right? Like people don’t know. And here’s what they feel. Here’s what happens. I need to make an investment decision, and I’m cruising along, and then I get to our industry, and this starts to happen to me, and I’m just—I can’t—everywhere I turn, “Well,
how much does it cost? Where do I open an account? Where do I find my daughter’s Social Security Number to open the account?” Like everything just gets so incredibly complex. And as an industry, for the most part, we’ve gotten really good at dropping people right there and say, “Hey, hey, here I am. I can help you.” What I’m telling you is people just want you to get them out here, right?

I think what we get confused at is we get confused between the difference between simplistic and what would they pay me for if it was simple? And elegantly simple, right? And Oliver Wendell Holmes said he wouldn’t give a fig for the simplicity on this side of complexity, but he would give his right arm for the simplicity on the other side. And what I’m here to tell you is that that’s what the people are saying. They’re saying, “If you make this simpler for me, you actually deliver on this promise of making my financial life simpler, I will pay you for it.”

Now, I’ve tested this because people keep warning me that there is this place called Too Simple, and I’ve been trying to find it. I’ve hired guides, I’ve bought maps, I’ve been trying to find it. And so one day—I’ve been trying to draw one of these every week for going on 4 years now, and I’m running out of ideas. I mean, I’ve hit patches where I’ve run out of ideas. I never run out of anything to write about because we’re always doing dumb things with money, right? I could just use my own life. But to draw something about it. So one week I drew this, “drew,” I use that word carefully. I sent this in. Now, remember the comments section. I sent this in and I thought this is surely going to be the one where I get told, “Hey, it’s been great, but we’re done.” Right? I send this in. You should see the comments on this one. “Brilliant!” “Where did you come up with that?” “That’s amazing!”

[Laughter.]

I thought this was going to be the one that was too simple, and people actually really like—in fact, I saw the CFO of a publicly traded technology company that you would all know at a dinner party, and he said, “Hey, I love those things you do.” And I said, “Which one is your favorite?” And he said, “Income must be greater than or equal to expenses.” I said, “That’s crazy. You’re the CFO of a publicly traded company and that’s your favorite one.” He said, “Carl, I’ve been saying it for 20 years. Now that it’s hanging on my wall, everybody believes me.” Right?

[Laughter.]

So the last—I think the last thing, and maybe there is one more, is “Why?” I just want to spend—I mean, why are we doing what we do, right? I don’t—again, I know we’re from all different parts of the industry, but as an industry, what is our ultimate goal? And to me, a business will only be around for a long, long time if they serve the ultimate goal of their customer, right? And when we think about the end goal of anybody who is investing money, most of the time the end goal has something to do with meeting some financial goal. I know I’m being super general and probably
self-obvious, but it has something to do with meeting some financial goal, and often it’s about happiness, right? “I just want to be secure,” “I want freedom,” “I just want to be happy.” Right? What it is, these goals are to fund some of the most important things in our clients’ lives.

Instead of spending time talking about this as an industry, we often get this backwards, and we spend all our time here. Our advertising is about products, right? What we write about is about products. What we’re selling is about products. Instead of taking the time to figure out, look, why are we doing this? What’s the goal of this foundation? What’s the goal of this private client? What’s the goal of our end customers if we’re building products for them? What’s the goal? And I think if we can get this—if we can switch this around and realize that it flows this way—right?—the product is the least important thing. The most important thing is that we understand, you know, what’s the goal here? And I use the word “plan”—you know, I apologize, I don’t mean like [?], plan. I just mean like, what are we doing? What’s the objective, plan objective? Whatever you want to use there.

I had an interesting conversation with a mutual fund manager a little while ago about this. All right? So here’s a fund manager who you would probably recognize. He’s done everything that he’s supposed to do. Like his job is to outperform a benchmark. He had done it for a long period of time, but yet he felt like a failure. And I said, “Why?” And he said, “I’ve looked at our own time-weighted rates of return versus our own dollar-weighted rate of return. We have almost no clients who have achieved, who have actually received the return that we’ve delivered.” And I said to him, “Well, that’s not really your responsibility, is it? Right? Your responsibility was to provide the vehicle, and you’ve done that. By all measures, you’ve been successful.” And he was like, “Well, that doesn’t make me feel any better,” and then he told me a little story. He said, “Imagine if you’re a rope salesman,” right? I don’t mean this to be a downer, it’s not really a downer, it’s just a story, right? “Imagine you’re a rope salesman and you have somebody come in who is going to use the rope to hang themselves. Is your job still to sell them the rope?” Right? So that’s how he was thinking about his—the mutual funds. The returns, we’re talking 15 years’ worth of returns now. He was saying, “Look, I don’t know how to—I don’t want to just generate these returns for myself, I want to generate them for my clients, and how do we get them to behave better?” Right? And I think part of it starts with figuring out why—that’s somebody who was thinking about why they were doing what they were doing.

One of the things that’s been interesting to me lately, this whole “Why?” question—is this sort of movement to automated advice and the sort of anxiety that I sense from the industry about being replaced by an algorithm, and I think we’re viewing it the wrong way, right? Like this is just a benefit to help us deal with this. As long as trust and empathy are an important part of giving advice, forwarding a conversation among people making important decisions about their money, there will always be a role for humans in that relationship.
So this is the last thing, letting go. Let me just conclude by one more story, I’ll just tell you one more story. This story is actually about my mom, and my mom is awesome. She has no financial background at all. She’s like most of the people in the world. She doesn’t really know much about the markets or our industry. She’s brilliant in many other ways, right? So 2 years ago in the fall—and where I’m from in Utah, in Salt Lake, Salt Lake is this beautiful valley with these really steep mountains, and there’s an area called the Bench, which is right up against the mountains, and my son, who was 10 years old at the time, was playing Lacrosse. It was one of those beautiful, perfect fall days in Salt Lake, blue sky, crisp, you know, sort of cool morning, and we were down there to watch him play his Lacrosse game, and if you know anything about 10-year-olds and Lacrosse, it’s essentially just 10-year-old boys knocking each other down with sticks, but it’s really, really fun to watch. And I thought, well, this will be great.

So I’m going down to the game. And it was sort of one of those dividend days for me as a dad, right? My mom shows up, Grandma. So if it was dividend day for me, it was certainly dividend day for Grandma. And I can see from 100 yards away—and you probably all know what I mean—when she walked across the field to sit down by me, I could see from 100 yards away that something was wrong. And she sat down, and I said, “Mom, what’s wrong?” and she said what every good mom says, “Oh, nothing.” Right? “Oh, nothing.” I said, “Mom, no really, what’s wrong?” Now, keep in mind, again like no financial background. After a few minutes, she says, “Oh, the dollar, I’m just so worried about the dollar.”

[Laughter.]

And my first response was—wanted to be like, “What AM radio station have you been listening to?” But I didn’t. I just said, “Okay, tell me a little bit more about that. I don’t even know what you mean.” Like this was—I was literally—I had never—whatever it was at this point, 17 years in the industry, I had never had anybody ask me really about the dollar. Right? Especially not at a Lacrosse game, right? So she said, “Oh, it might collapse.” I said, “Okay, well, now I understand, dollar, worry and—sorry—dollar, collapse, and worry all in one sentence, but we went on to talk about this, right?

My mom, as far as I am concerned, sort of controls the universe, but she has no control over what happens to the dollar, zero, right? And you could argue—I don’t think we need to argue, if the dollar collapsed, it would be a problem, but it wasn’t a problem on that day, right? My mom was supposed to be at a Lacrosse game watching her grandson play Lacrosse, and, instead, she was obsessing and spinning, spinning, spinning, spinning, spinning around the dollar. And I’m sure you all have plenty of stories like this. I seem to have one almost every week, I get a phone call from somebody saying they’re worried about something going on somewhere in the world that has absolutely no bearing on them at all. She was going to still be worrying about it the next day when she went to go to church on Sunday, right?
And the cool thing about our industry, the reality, is most of the things that matter, save one—right?—the market—most of the things that matter we have control over. In fact, if you were to make a list of all of the things that really matter, I think you would find almost all of them on this other list, I think the overlap would be far greater than this picture. But we spend all of our time worried about the one thing that we have no control over, and my contention is, my suggestion to you, is that if we could just spend more time focused here, right? More time helping clients and the public, whatever role we play in this industry, focused on the things that actually matter and over which we have some control, people would be happier, right? And I’m saying this on purpose in this order, people would be happier, and as a byproduct, as a byproduct, they would have a better investment experience.