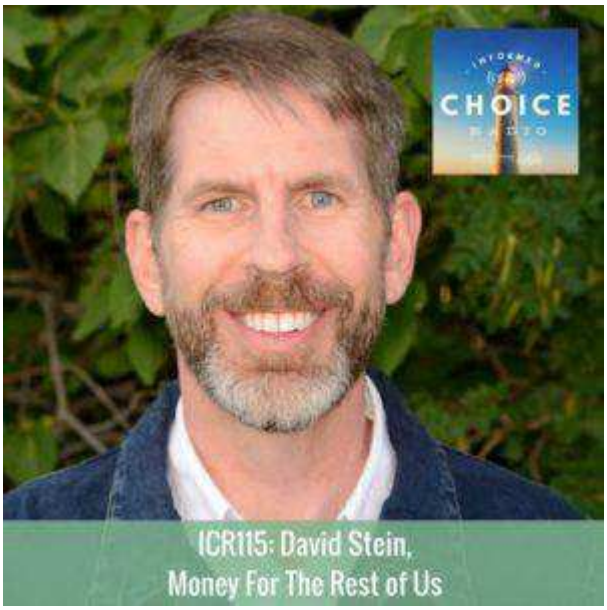
Informed Choice Radio 115:

David Stein, Money For The Rest of Us

Hello and welcome to episode 115 of Informed Choice Radio where I speak to David Stein.



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Here's the interview transcript, recorded on Tuesday 23rd August 2016 and published on Wednesday 21st September 2016 at www.icfp.co.uk/podcast.

What happens when a money manager responsible for billions of dollars of investments feels burnt out and decides to become a personal finance teacher instead?

In this episode of Informed Choice Radio, I speak to David Stein.

David is a former chief investment strategist and chief portfolio strategist, responsible for $33 billion of investments, heading up in this role a 21-person strong research group.

He is host of the incredibly popular Money for the Rest of Us podcast, his primary platform for teaching thousands of people about money, investing and the economy. David's podcast has been featured in Business Insider, Forbes, and US News & World Report.

David also helps hundreds of individual investors improve their portfolio performance by providing asset allocation and investment guidance via the Money For the Rest of Us Hub, a premium multimedia investment education platform.

In this episode of Informed Choice Radio, I speak to David about the difference between institutional and retail investment decisions, the impact of Brexit on US fund management, his favourite podcast episodes, and much more.

Welcome to Money For The Rest of Us with David Stein, in episode 115 of Informed Choice Radio.

Martin Bamford: I'm very pleased to welcome to the podcast today David Stein. David, welcome, could you start by telling our listeners a little bit about who you are and just a bit about yourself?

David Stein: Sure, thank you for having me. My main thing that I do now is I podcast, like you, but I focus primarily podcasting on investing, the economy, how money works, how the economy works, and I've been doing that for about two and a half years. The show is called is Money For The Rest of Us. Prior to that I was a professional investor, like you, although my focus was more institutional. I was chief investment strategist and chief portfolio strategist at about a 50 billion dollar investment advisory firm, we started out primarily working with not for profits so we have a lot of university clients and private foundations in a consulting role, and eventually we got into more money management where we would make decisions on behalf of our clients in terms of asset allocation and things of that sort. I also provide education through the podcast and I also have an investment education site called Money For The Rest of Us Hub.

Martin Bamford: That's quite a big leap to go from 50 billion dollars of advising to institutional type investors to what you do now, Money For The Rest of Us. I imagine that's individuals and personal finance, how did you make that transition?

David Stein: I quit my job, I was in my mid-forties and I was sort of burnt out of the day to day money management where you're constantly compared to a benchmark of market indices, you're compared to your peers, and I wanted to spend more time with family. We wanted to do some traveling, and so my partners bought me out and then in actually didn't launch the podcast for, it's been four years since I left my old firm and so I had about two years there were I sort of tried to figure out what I wanted to do with the rest of my life and found that I really missed just teaching about investing and the economy and helping out. I'm no longer a registered investment advisor, so I don't take individual clients, everything I provide is more general education online.

Martin Bamford: Did you always know that you were going to work in the field of investment? Was that something you dreamt of doing since you were a small boy?

David Stein: No, not really. I had no idea what I was going to do, I sort of fell into it. I remember being in college my first year, I decided to do business because, I think of my kids now and most children have such a wide variety of things to choose from, they just have more choices and are aware of more choices, I wasn't aware that there were even choices so I showed up at our college and I chose business because business seemed like something I at least knew what the word meant, whereas maybe engineering, I didn't know what engineers did except drive trains.

They did an orientation and a stock broker stood up and he said he made six figures a year and I thought, 'Well, I could live on that', and so I chose finance. Over time I learned to like it, but finance is such a broad spectrum and I like big picture strategic thinking, and the thing that I like about the economy investing, it is completely unpredictable and there's always more to learn so I don't get bored. I like that aspect of it because it's always changing and nobody really has any answers, and so you can learn with everyone else.

Martin Bamford: I think it's fair to say that broad strategic thinking is equally as applicable to multimillion dollar institutional investors as it is to individuals from a personal financial planning perspective, do you find that?

David Stein: Oh, certainly. I think individuals in many regards have an advantage over institutional investors because the institutional world is very relative performance focused, did you meet or out perform the market or the benchmark? As individuals you don't even have to have the discussion. If you want to be an active investor you can do that, if you want to be passive you can do that, but you don't have to answer to anyone, you don't have to justify every decision to clients that you make and as a result you make much longer term decisions and be a very patient investor as individuals.

Martin Bamford: Absolutely, something we're trying to encourage our clients to think about is not a benchmark based on how other investments are performing, but almost like a benchmark based on what they want to achieve out of life and relating their investments to their financial planning goal. It is very different, I think in that sense, to benchmarking to the performance of other managers, which is perhaps less relevant for personal investors.

David Stein: I agree, I agree.

Martin Bamford: We'll talk about your podcast in just a moment if that's okay, but beforehand I just wanted to have a chat about Brexit, because here in the UK we voted in June and we voted to leave the European Union. It's not happened just yet, but it's supposed to at some point in the next year or so. What effect do you think that Brexit is going to have first of all on asset managers in the United States, is a big deal over there?

David Stein: Well, it was sort of the flavor of the month to what to worry about. Money managers, and in the media, markets climb a constant wall of worry, that's a pretty traditional phrase, and so leading up to Brexit that was a big concern, after Brexit it was a concern, but the reality is nobody knows how it will turn out. It appears that the UK economy is slowing, it could have a dip with just the aftermath and as they work out trade agreements, but my personal view is UK already had currency sovereignty, they had the pound, and so it's not a big a deal as if a Greece or a France or Germany left the European Union because in this case it's more just negotiating agreements and what type of backlash there will be as part of that negotiation process, which could extend, as you know, for years.

It's the uncertainty that causes investors some worry, but ultimately we'll see. I know that the PMI data, some of the survey data, suggests the economy is slowing, but we'll have to see if that actually comes to fruition.

Martin Bamford: Absolutely, time will tell. You say there about it maybe being a flavor of the month issue for investors to worry about, what are they worried about now if there's this constant wall of worry for them to climb? Is there a new flavor of the month worry?

David Stein: Well, surprisingly, at least in the last few weeks, they've been much less worried. It's been risk gone, and the way that I invest and teach on my show is investment returns are driven by math and emotion, the math being what are corporate earnings, what are dividend yield, what are cash flows. The emotion is all the worry, and right now investors, particularly if you see flows into emerging markets and some of the other risk assets,

they're not worried about some traumatic event coming in the near term, obviously there's some concern regarding the election.

I think your typical investor is probably worried, which would be the worry they've had for several years now, is a lack of yield on their bonds and their income. There was an article today in The Financial Times just profiling pension plans and individuals, just the challenges of having such low rates and with rates dropping there in the UK, ultimately it means people are going to have save more. A lot more than they did in the past, which puts stress on families, et cetera, and puts stress on pension plans clearly.

Martin Bamford: Absolutely, there's very similar challenges here in the UK, especially after our recent interest rate cut. The Bank of England cut rates here's to 0.25% and I think all investors are just having to learn to live with a very low yield environment, not just on cash but on bonds, on equities, on everything else.

Let's talk about your podcast, if that's okay. You've got your podcast Money For The Rest of Us, it's a weekly personal finance podcast and it's doing exceptionally well, it's got over 25,000 listeners per episode, you're a bit ahead of us here at Informed Choice Radio with 120 episodes published. What's it all about, what drives you to do this podcast and what have been some of your favorite episodes?

David Stein: The tagline for the show is it's on money, how it works, how to invest it and how to live without worrying about it, and it's that last aspect that I like. When I was a professional advisor and I met with a lot of boards, it was always very serious meetings and talking about the economy, investing, whereas having this show I can bring other elements. I can talk about throw, I can talk about SENECA, last week's episode I talked about Lao Tzu. I can bring in some philosophy of money and then I can dive deep into how money works, where did money come from and why, and how does the economy work in terms of, you know, there's so much misunderstanding about it.

In terms of my favorite episodes, what I like is I'm not somebody that plans out episodes weeks ahead of time. I use the show as my medium for helping me learn and grow, and so I share what's most interesting. My favorite episode is whatever I happen to be

working on, so this week's show that I'll record when we're done with this interview is on what if everyone indexed? Right now, about 3% of global market capitalization is indexed, and there's this worry as it continues to grow what impact will that have on markets. You're starting to see some of those impacts in terms of additional volatility in stocks, you're starting to see stocks move together, you're starting to see dislocations such as the ETF crash that was experienced here in the US last August, and that's what we're talking about this week.

When you have your own show you can explore anything, and I get a lot of feedback from listeners, every email I get an answer, and so it becomes this community that we grow together as we try to see how markets evolve and the economy evolves, and ultimately live in a way that we don't have to worry so much about money and enjoy our lives.

Martin Bamford: That's interesting that you're looking at the impact of index investing this week, and here in the UK I think we're somewhat behind the US, certainly for retail investors. I believe around 11% of retail fund sales here in the UK are index funds, whereas I believe that number is much higher in the US. It's certainly a growing market over here, but do you think index investing is something that's more appealing to people as maybe they don't see as much value from active management?

David Stein: Definitely, you're seeing money flow into index funds and out of active management, and the simple reason is most active managers under-perform the index, and it's not because they're stupid, it's because they're smarter than they've ever been and they have access to more technology than they ever had, and as a result markets are dominated by institutional investors who are all competing against themselves. They are the market. Thirty or forty years ago the market was primarily retail investors, and so as an institutional advisor you could get some type of informational edge, you could do the research on a company, you can figure out it was under-valued, and then you go out into the stock market, and the stock market is an auction market so there's always someone on the other side of the trade and that person was typically an individual, so you could get an advantage.

But now it's all institutions, and that's the market, and as a result indexing is a way, as Charles Allen says, that it's very easy for the individual investor to be above average, to out perform the market. But that's not the end of the story, it's the problem, is often times you have everybody index, except then, well, which index? Which asset allocation, how frequently do you re-balance, do you adjust your portfolio based on market conditions? If there's a high risk of a recession, you reduce your stock exposure even if it's in index funds, and so there's a plethora of other decisions that need to be made once you decide that you want to index your portfolio, and do you index all of your portfolio?

Right now for example, there's active bond strategies that have higher yields than what you can get with a bond index fund. Well, maybe it makes sense to do that if you understand how that higher yield is driven, because ultimately that fund will out perform a lower yielding investment over time. Lots of decisions, it's a fascinating discussion and it's been going on for decades and it will continue to go on for the decades ahead.

Martin Bamford: Absolutely, and I look forward to hearing that episode. I think here in the UK and probably in the US too, I hear a lot of advisors talking about passive investing when they're referring to index funds and index investing, and of course as you've just explained, there's probably nothing passive about using index funds. There's lots of active decisions they have to make still. Can we move on briefly to the upcoming US presidential election? If you don't mind me asking, who's getting your vote, what's the temperature of the politics in the US at the moment?

David Stein: I don't think I want to say who my vote is, I haven't made a final decision yet. Frankly it's been embarrassing, it really has. When I look at the election and I look at how did we get to where the two leading candidates were the leading candidates? How far have we fallen as a nation, because I can tell you right now I'm not going to vote for Trump because I think he's dangerous and he's not qualified. It scares me that somebody that is as unqualified as he is is essentially a vote a way from being president of the United States, which shows there is a systematic problem in our politics, the fund raising, and our electoral system. That's worrisome.

Martin Bamford: I think I agree entirely with that sentiment. Have you given much thought to what the

impact would be on the economy of the country, on investment markets and on the wider global economy should either Trump or Clinton be elected?

David Stein: Well, if Clinton's elected typically the vast majority of time ... First off, Clinton has about an 85% probability of winning according to the most recent polls, et cetera, and incumbent parties typically 72% of the time have won the presidential election when the US has not been in a recession, and we're not in recession and a recession does not appear eminent, and so that's helpful. I think Clinton, despite her email woes which clearly showed poor judgement, is the safe candidate, has way more foreign policy experience, way more experience just in terms of diplomacy, et cetera.

I don't necessarily agree with everything she says, on the other hand she is way more predictable and so I think from an investment, markets will be much more pleased if she wins than if Trump wins, mainly because of the uncertainty and he just shoots from the hip and that is not something you want as the leader of your country in my opinion.

Martin Bamford: If he was to win, scary as a prospect as that might sound, but if he were to win do you think that could be a cataclysmic event on global markets or will it be something that markets worry about for a short period of time, that flavor of the month to worry about before they shrug it off an move on to the next thing?

David Stein: I don't know, I think it's that serious. I think there will be increased volatility, but ultimately it depends on what he does. Obviously he's just one person, and we tend to, at least as Americans, put too much stock into the president in terms of their actual impact on the economy, unless they do something completely dumb like start a war. Not that I'm suggesting that Trump would do that, but generally speaking presidents have good council and you don't necessarily always agree with their decisions, but generally they make decisions but they don't make decisions that can completely undermine an economy. Things go on and markets go on, but I suppose you could always have a situation where you have a leader that figures out a way to undermine the economy by doing something completely rash and unpredictable.

Martin Bamford: Absolutely. We're coming towards the end of our interview now, I don't want to finish

on that slightly scary low note if that's okay, can I go back and just ask are there any tips you'd like to share with our listeners about how to position portfolios right now given all of those worries and the wall of worry in the market, and all of the outlook in this low yield environment we talked about? How are you suggesting people approach investments right now?

David Stein: My approach is investors should have multiple drivers of their portfolio, which means have many different sources of return, both public investments as well as private investments. I did an episode last week, episode 120, where I shared a very cataclysmic view from James Rickard, who believes that we're headed toward a monetary collapse. Then I shared a view of Tim Hayes from Ned Davis Research, who is one of the research firms that I use, that talked about why we're in a secular bull market and have been since 2009. Those are very different views, and my portfolio is position for both of them, I own gold coins like James Rickard suggests, and I own stocks.

I think most investors should have a number of different assets and have pockets of independence away from the financial system. Perhaps own some gold coins, perhaps have some land, perhaps grow a garden, maybe they some rental real estate, but don't be completely tied on public markets because things can go awry with public markets. Ultimately, you can't predict what's going to happen, you can get clues what might happen, but you should be positioned as broadly as possible, and that will help you get it through and then save more, ultimately.

Martin Bamford: David, thank you so much for your time today. Before you go, are there any social media links or websites that you'd like to share with our listeners so they can find out more about you, maybe get in touch if they'd like to reach out?

David Stein: Sure, the podcast tome is at MoneyForTheRestOfUs.net, and you can find me on Twitter, @JDStein. You can always email me at JD@JDavidStein.com, S-T-E-I-N.

Martin Bamford: Fantastic, thank you very much. We'll put those links in the show notes too so our listeners can find them nice and easily. Thank you for your time, sir. It's been great to chat.

David Stein: That was great, thank you.

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