RIA Advice

2-Ways To "Walk The Line" With Your Money

?It?s too fast, Sam. Feels all wrong.?

The tempo, the rhythm of steady bass guitar strings was too quick, diluted the impact of the lyrics and the solemn promise behind the words. Sun Records? productions customarily sought a fast pace between the grooves. After all, these weren?t mama?s kind of melodies. Producer Sam Phillips knew what he was doing, what he wanted, what 1950s teen girl fans hungered for. The man was a master of tapping into the heartbeat of America?s youth and Johnny Cash?s deliberate, heart-mourning delivery at Sun Studios that afternoon in the spring of 1956 was captivating, but sluggish. The beat of the song?s first cut was not fast enough for an audience that hungered for edgy guitar licks and vocals that flipped them frantic when a new artist was introduced by the Memphis house of Sun. The producer had a gift for discovering and developing talent; what he observed in a young Johnny Cash was smoldering raw potential - A voice deep with a syrupy

resonance connected to messages embedded in lyrics that echoed of old souls tormented by social strife so beautifully captured by then-tenured folk artists like Woody Guthrie. ?Along with rockabilly guitarist Luther Perkins and bassist Marshall Grant, the trio known as Johnny Cash and the Tennessee Two, forged a unique sound. The sharp edge of a buzzy razor connected to the undertone of an addictive to the ear clickity-clack bass which mirrored the beat of an articulated locomotive?s driving wheels as they chugged along at steady cadence.

> *?I keep a close watch on this heart of mine, I keep my eyes wide-open all the time, I keep an eye out for the tie that binds, because you?re mine, I walk the line.?*

Can you hear the chug-chug of the locomotive?

For large brokerage firms, each investor?s contribution to profit is calculated down to the penny. The goal is to maximize your account?s invested asset influence on a firm?s bottom line. Nothing unethical about profit. However, ?walking the line,? or staying true to a discipline that places your interest first is a challenge unless you?re a hardcore do-it-yourselfer kind of investor. Heck, if that?s the case, the financial world is your oyster. There are plenty of low cost, commission-free exchange traded funds to own or trade. Tremendous research is available at the fingertips for those who are motivated to do their own homework. However, when it comes to financial advice or guidance? Caveat emptor is warranted. Example:

> *?Investors who seek advice from discount brokerage firms might assume the counsel they get is impartial, given how these firms have rejected the old Wall Street model of working on commissions.In fact, advisers at some of the biggest discount brokerage firms make more money if they steer clients toward more-expensive products, according to disclosures from the firms and people who used to work at them. That means customers could end up with investment products and services that are costlier than they need.? -?Jason Zweig & Anne Tergesen for The Wall Street Journal,?January 10, 2018.*

Unfortunately, I am personally acquainted with these motives. Even the afterlife doesn?t prevent an investor from being a profit center. On the contrary. Allegedly, after an investor dies, beneficiaries, heirs, trustees, consolidate and cement additional assets at the brokerage firm the deceased patronized. I became aware of this interesting yet disturbing tidbit at my arbitration hearing with former employer Charles Schwab. One of their bean counters on payroll from San Francisco made a case that profits from deceased investor assets are near eternal. So, it shouldn?t be a surprise that financial advice branded as helpful is suspect enough for you to *keep a close watch on that potential margin of yours.* If the motivation is to financially *?walk the line,?* remain focused, you?re in for a challenge; the temptation to stray from disciplined approaches to portfolio management and fall recklessly for stories perpetuated by brokerage in-house *?strategists,?* is formidable, especially as market volatility blossoms. Here?s a couple of ways to keep your eyes open **all the time.**

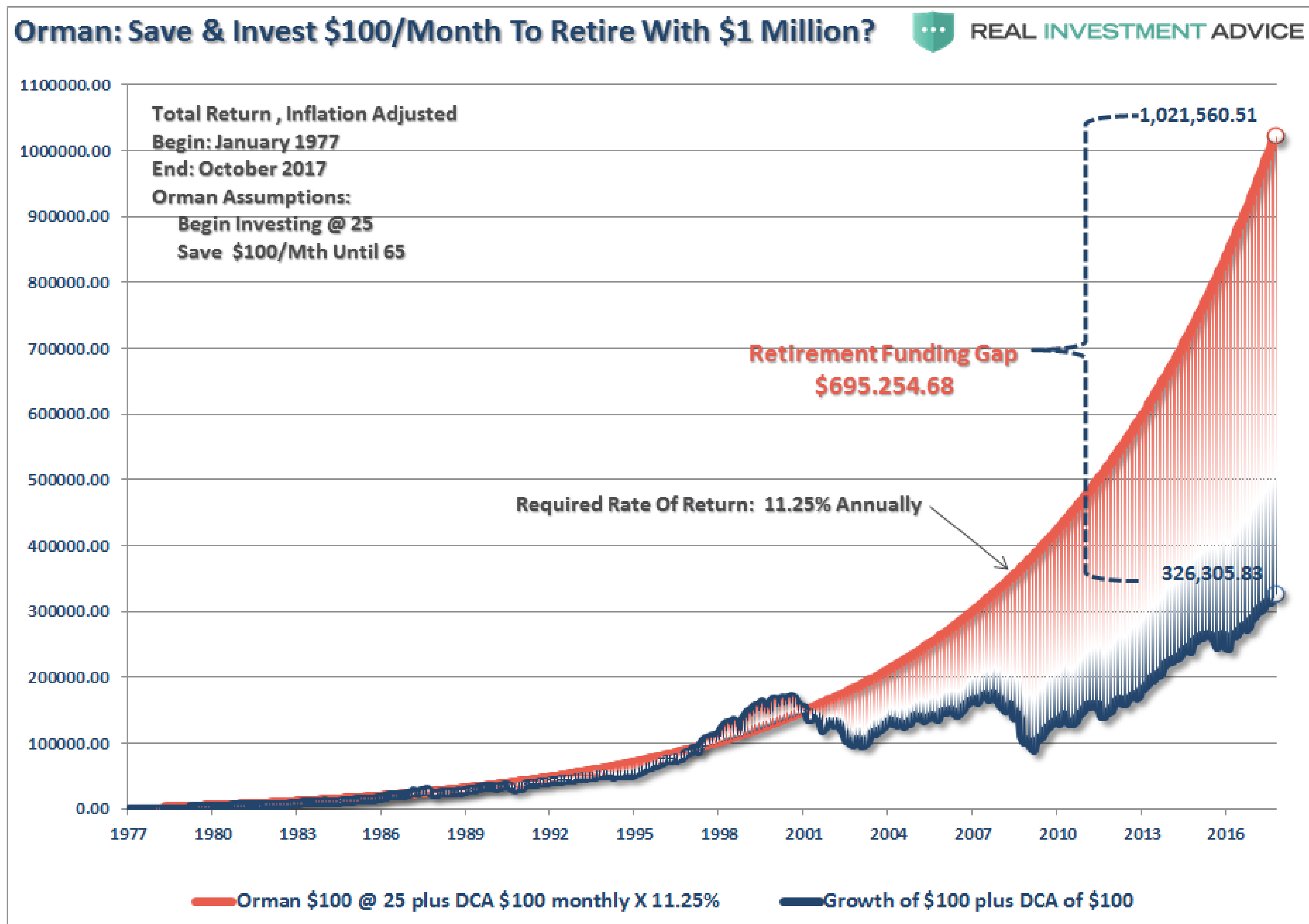
1. Step away from popular media narratives about markets and personal finance.

The national media market gurus and superstar personal finance pundits regurgitate information that?s not constructive to building wealth or capital preservation. They?re confident they?ll rarely be held accountable for what they say.? Frankly, the retail public doesn?t possess the confidence nor in some cases, financial literacy to question the guidance. National media spreads the messages, professionals who applaud the stories are mostly employed by the gatekeepers and

earn better than average livings through the support of narratives that mostly come down to ?set a portfolio and forget it.? While these so-called words of wisdom sound good, they do little to help you achieve financial goals. Financial planning A-lister Suze Orman was recently plastered all over www.cnbc.com with the following insight shared in an interview: Excerpt:

> ***?Orman explained that if a 25-year-old puts $100 into a Roth IRA each month, they could have $1 million by retirement.??***

While I wholeheartedly agree with a monthly investing or saving discipline spouted here, especially into a Roth IRA where earnings grow tax-deferred and withdrawn tax-free at retirement, I had a dilemma making her retirement numbers work.

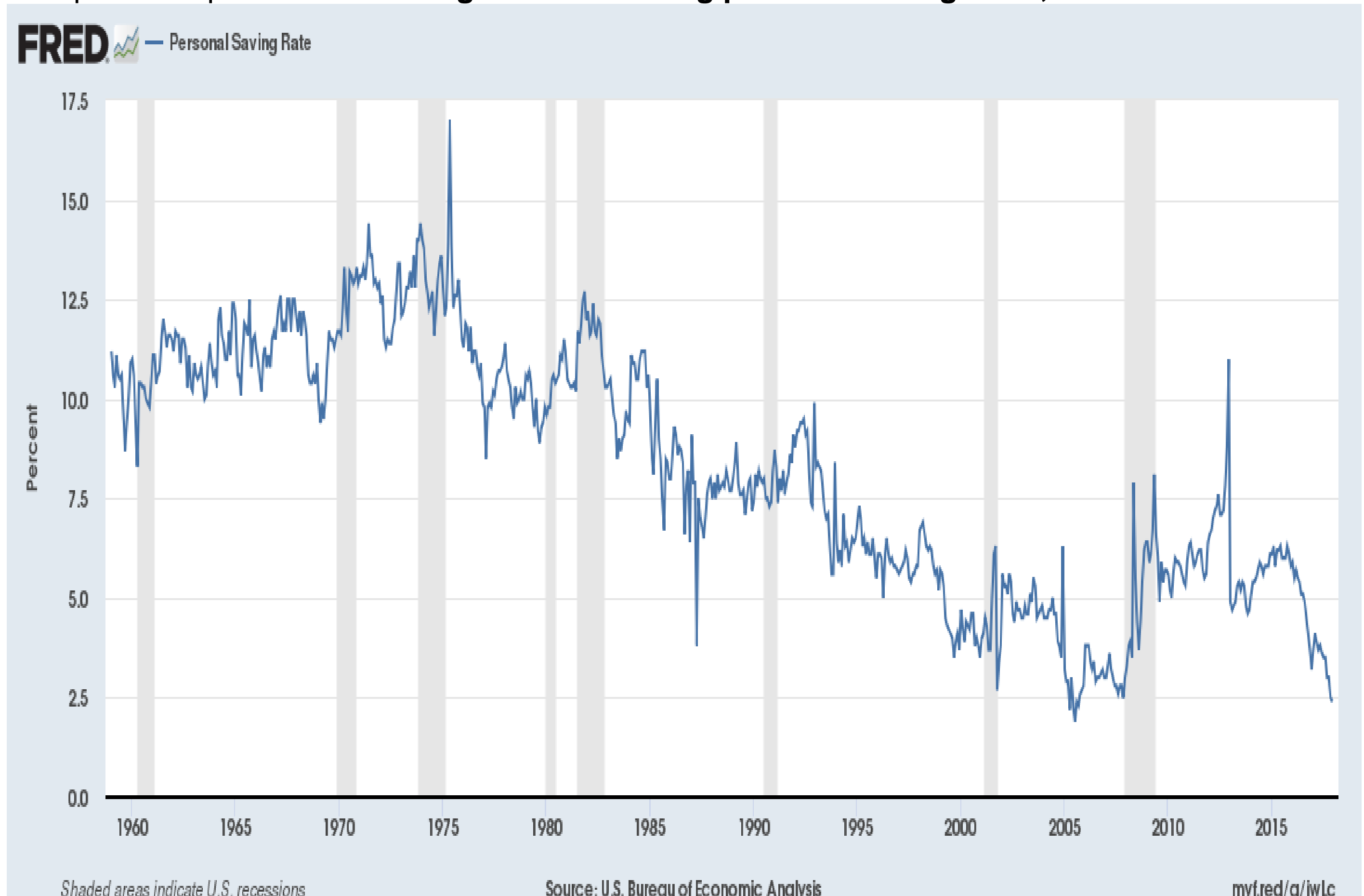


As outlined in the chart above, on an inflation-adjusted basis, achieving a million-buck balance in 40 years by dollar-cost averaging $100 a month, requires a surreal 11.25% annual return. In the real world (not the superstar pundit realm), a blind follower of Suze?s advice would experience a whopping retirement funding gap of $695,254.68. I don?t know about you, to me this is a Grand Canyon expectation vs. reality-sized unwelcomed surprise. On a positive note, investing on a disciplined basis for 40 years still results in a retirement account balance most Americans nearing retirement would envy. However, it?s far from a million as touted so effervescently by Ms. Orman. Here?s another statement of wisdom that will have you stumble, not walk a line.

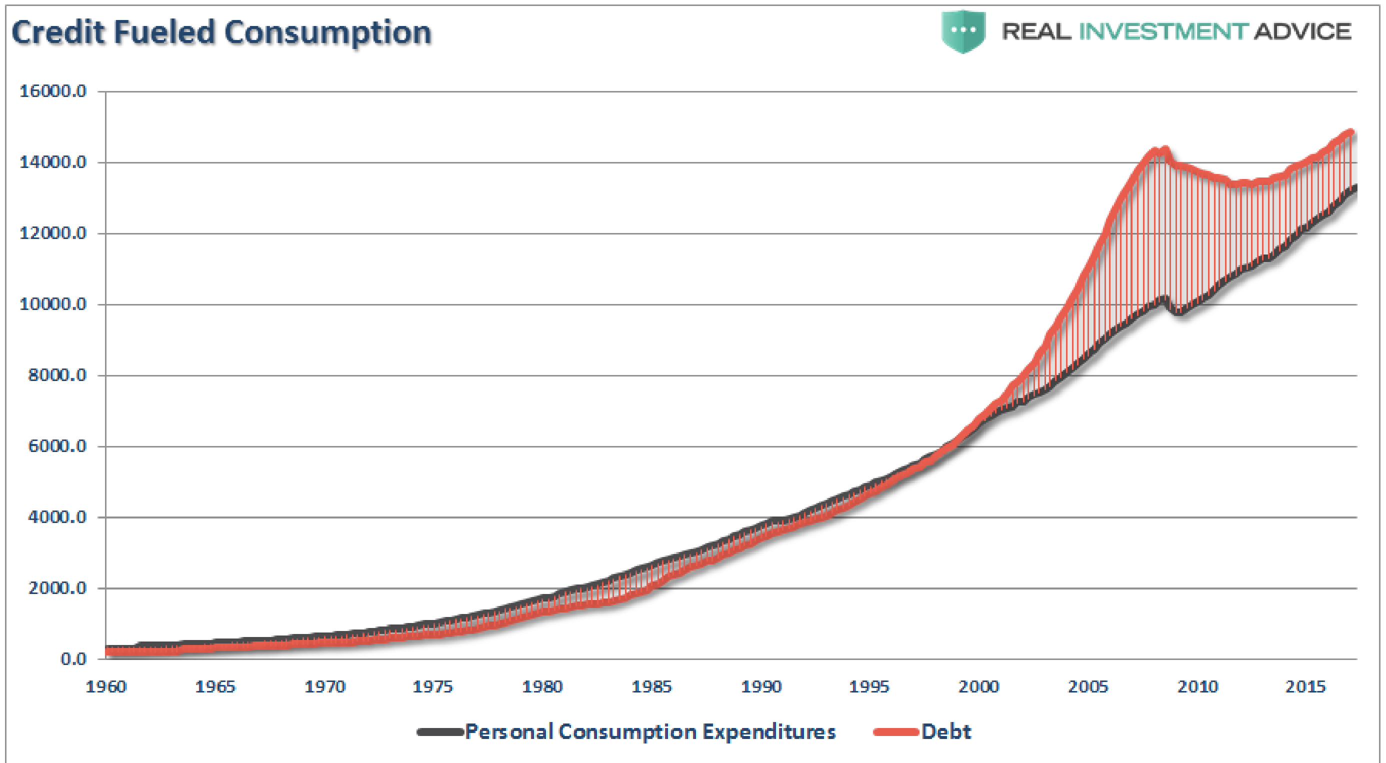
> ***?Stocks average 10% a year if you just hold on.?***

A popular roboadviser called WealthFront which is an electronic portfolio asset allocator, regularly shares a chart alone and within blog posts. It outlines how the growth of a dollar invested in the stock market appreciates to roughly $34,000 if invested from 1871 through 2015. **1871.** *The president of the United States was Ulysses S. Grant. Orville Wright of the Wright Brothers was born*

in August of that year.Is 10% completely false. No.Misleading, yes. Is it realistic to base return assumptions for retirement planning on numbers many pundits share in the national media? **No. From 1871 to present the total nominal return was 8.08% versus just 6.86% on a ?real? adjusted for inflation basis.** While the percentages may not seem like much, over such a long period the ending value of the original $1000 investment was lower by an astounding $270 million dollars. Since 1900, stock market appreciation plus dividends has provided investors with an? **average**?return of roughly 10% per year.?**Historically, 4%, or 40% of the total return, came from dividends. The remaining return (60%), came from capital appreciation that averaged 6%.** There are several fallacies with the notion that the markets long-term compound at 10% annually. **The market does not return 10% every year.**?There are many years where market returns have been sharply higher, significantly lower or flat lined. **The analysis does not include the real-world effects of inflation, taxes, fees, and other expenses?**that subtract from total returns. **SHOCKER ? You don?t have 146 years to invest.**?Using ?perpetual? holdings periods for something as finite as a human life is plain irresponsible. Also, it?s a warm and fuzzy idea, perhaps a bit Pollyannaish, to believe an individual can begin saving and investing at age 23 and remain consistent for 45 years to capture those appetizing long-term equity returns. I applaud those who have or can. However, with that pesky thing called life (strife), that Johnny Cash wrote so much about, it?s near impossible for a majority of Americans to accomplish this fiscal feat. I?d say people have a good 20 years of savings potential in them. Max. Consider the reasons why saving and investing for four decades isn?t realistic. I bet you can rattle two or three off the top of your head. Here are a few. **Crippling student loan debt**: Per a study by the Brookings Institute, student loan borrowers who left school owing at least $50,000 in student loans 2010 had failed *to pay down any of the debt* four years later. There are approximately 5 million borrowers affected out of a total of 44 million Americans saddled with student loan obligations. The most recent overall loan delinquency rate stands at 11.2% and the median monthly student loan payment is $203 per one of my favorite internet hubs of information ? www.studentloanhero.com. **Very little financial cushion** : According to Bankrate.com survey, 57% of Americans don?t have access to $500 to cover unexpected expenses. **A downright embarrassing personal savings rate, overall:**



As of December 2017, the personal U.S. saving rate fell to 2.4%. You need to return to the summer of 2005 to get close to an equally dismal percentage. Unless I?m missing something, with close to 80% of full-time working Americans living paycheck-to-paycheck and utilizing debt to fuel consumption, it?s rare to have the ability to invest and save long enough to achieve average annual 10% stock market returns. More likely, an average bear market (-37%), will inflict enough damage to wipe out half your long-term portfolio. No wonder retail investors spend a good part of their investment lives striving to break even.



It?s fine to watch financial programming, peruse what financial journalists are putting out there. I have my favorite writers, television personalities just like you probably do. Occasionally, there?s a tidbit of wisdom that captures my attention and warrants further investigation. I begin the day at 3:30am with Real Investment Advice, CNBC, The Financial Times, The Wall Street Journal, Bloomberg, The Street.com and various blogs (whew). It gives me a chance to take in top of mind topics. However, after 25 years plus in this industry, I?m also able to isolate the noise from what?s relevant. Want to walk the line? Place boundaries around the time you spend taking in what mainstream financial personalities put out there. At the least, consider information you believe relevant as topics for discussion with your adviser.

2. Bonds are dead.

Not trying to be a wet blanket here, but c?mon. *Again?* Maybe the line I?m walkin? needs to be crossed. Too early to say. The pros in this business who believe the 10-year Treasury yield must breach 3% have converged on one side of the boat. The contrarian in me along with several data ints
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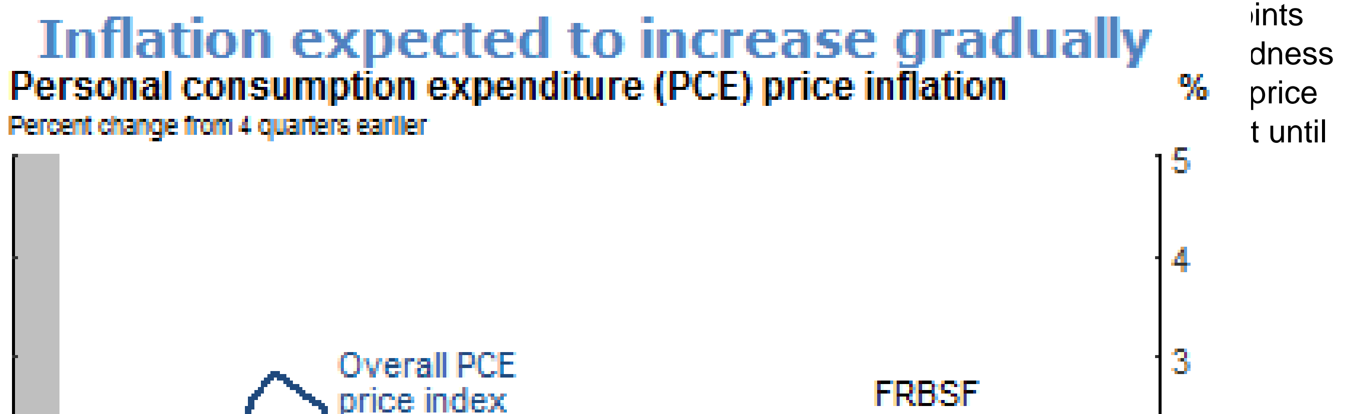
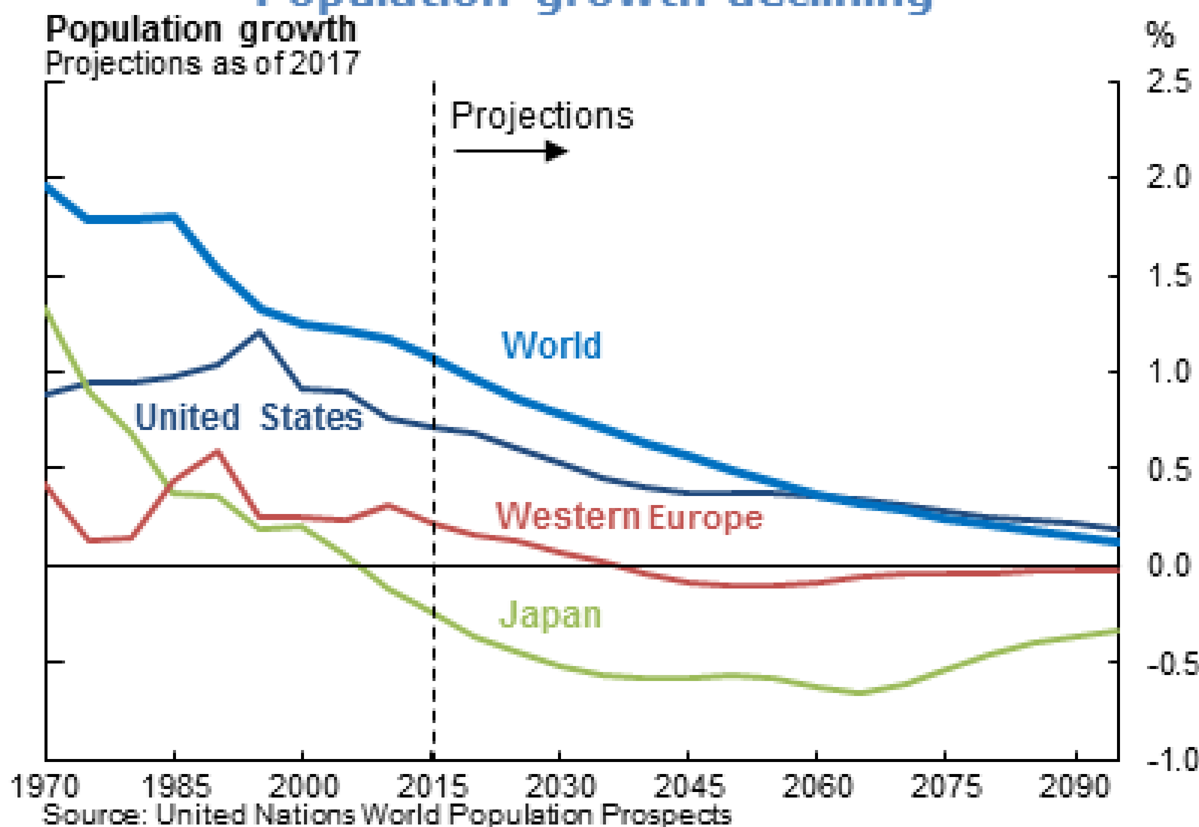


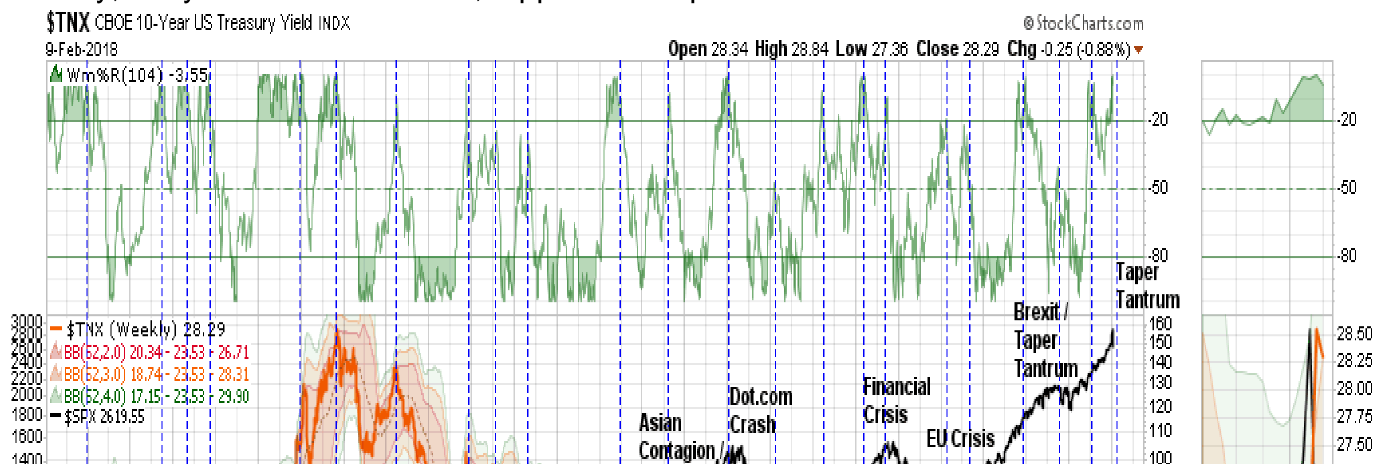
forget demographics. The U.S. population is aging which puts a lid on how high inflation-adjusted interest rates can go. Per recent research by the Federal Reserve Bank Of San Francisco:

- *?Changing demographics can affect the natural real rate of interest, r-star; the inflation-adjusted interest rate that is consistent with steady inflation at the Fed?s target and the economy growing at its potential. Demographic trends affect the equilibrium rate by changing incentives to save and consume. Lengthier retirement periods may raise some households? desire to save rather than consume, lowering r-star. At the same time, declining population growth increases the share of older households in the economy, who generally have higher marginal propensities to consume, raising consumption and r-star.*
- ***As population growth declines, it could also reduce real GDP growth and productivity, thereby putting downward pressure on r-star.***



- *In the United States, these demographic changes have already put significant downward pressure on interest rates between 1990 and 2017. As demographic movements tend to be long-lasting, the effects on interest rates may be ongoing. A lower equilibrium rate has the potential to limit the scope for the Federal Reserve to cut interest rates in response to future recessionary shocks.*

Usually, as the chart below indicates, when the 10-year Treasury gets extremely oversold as it is currently, the yield has at the least, topped out or pulled back.



For investors who remain concerned about an increase in rates, a chance to control interest risk by shortening duration (think ultra-short or short-term bond funds), is at hand. If yields retrace and bond prices commensurately increase, it should provide a window of opportunity to swap longer duration positions with shorter duration alternatives. Or, ask your broker for the latest rates on certificates of deposit. Yes, your broker should have access to CDs from major financial institutions, so no need to spend lots of time shopping around. For example, I discovered one-year CDs paying 1.9%, 2.4% for two years. At the end of the terms, principal is returned. These vehicles are FDIC-insured and pay interest monthly, semi-annually, or at maturity. Bonds may have lost their mojo as far as noticeable price appreciation. I?ll concede that point. However, they?re far from dead. Generally, the income and diversification from high-quality and Treasury bonds act as buffers to portfolio volatility, especially through periods of significant corrections or bear markets in stocks. Walking the line, keeping a cool head, as central banks sever the cheap money pipeline for markets, isn?t easy. I?ll understand if you stray. Heck, even Johnny Cash didn?t stay true to the inspiration for his iconic song ? his first wife Vivian. Interesting facts about *?I Walk The Line,?* I bet you didn?t know:

1. Carl Perkins encouraged the song title. One of Johnny?s ideas was to call it *?I?m Still Being True.?*
2. The song was featured in the 1970 theatrical movie *?I Walk The Line,?* starring Gregory Peck, Tuesday Weld & Estelle Parsons.
3. Johnny Cash preferred a slower version of his tune which didn?t pass muster with Mr. Phillips ? Listen here: