To the Prospective Subscriber

*Nick Murray Interactive*, now in its seventeenth year, combines four complementary resources:

- **An eight-page newsletter**, published on the last day of each month, containing essays for advisors only such as you see here, on economics, practice management and financial planning. *The emphasis is always on giving you actionable real-life scripts*—what to say, not just what to think.

- Most months, a Client’s Corner essay for transmittal (subject to your own compliance procedures) to clients and prospects, *only by email or snail-mail of the pdf we provide*.

- **A Q&A/objections-handling clinic** (Ask Nick). Subscribers may email me directly with client/prospect issues they’re encountering, and I’ll formulate a response, usually within two business days. Selected exchanges are (anonymously) reprinted in the newsletter.

- **Full access to the entire archive**, which now exceeds 1,700 pages (and counting), together with a search function which can help guide you to specific issues.

My goal is simple and straightforward: that every subscriber find in every monthly issue one idea, one script, one tactic, or one book or article review *which instantly repays the entire cost of their annual subscription*. I invite you to read the testimonials on the newsletter’s home page, to see how well our subscribers think we’re doing in this regard. *I love producing this resource for its growing roster of subscribers, and would welcome the opportunity to do so for you, too.*

“My point is that equity is completely different from other classes of investments. *It’s the only one that captures human ingenuity, which is the ultimate asset.*”

—Eddy Elfenbein, in his *Crossing Wall Street* blog, 3/10/16
FROM 10/16 ISSUE

Longtime reader Chad Hufford sent along a wonderful quote from Lou Holtz, in a recent interview. The legendary coach was, of course, talking about football, but Chad quite correctly experienced his thought as being right up our alley. Coach Holtz said:

“You don’t need the big plays to win; you just have to eliminate the dumb ones.”

This is, year in and year out over a long advisory relationship, the very essence of our value proposition: our willingness and ability to save our clients from the horrendous costs of The Big Mistake, in all its hydra-headed manifestations. This becomes intuitive to us—the core of our professional identity as investment advisors—to the point where we may lose sight of one uncomfortable fact.

To wit: it is never permanently intuitive to the clients.

It’s certainly one of the two points people must actively accept in order to hire us in the first place—the other, obviously, being that we are financial planners rather than economic forecasters, market timers, and/or performance handicappers.

A plan is an active, living thing. It is, above all, a presence in our clients’ lives. They can go back to it whenever they like, and see it unfolding: the wealth accreting, the goals getting slowly but inexorably closer to reality, despite the occasional and always temporary setbacks.

But our inestimable value as inhibitors of The Big Mistake is essentially—especially when the plan is obviously working—an absence. In that sense it’s somewhat analogous to the various forms of casualty insurance. All of the premiums people pay for insurance against the destruction of their homes and their cars are expenditures they devoutly hope will be “wasted,” in that catastrophe won’t overtake them.

The longer they go without collecting on those insurances, the happier they are. And in a perfect world, this would also be true of our fee. But the world is not perfect, and people’s gratitude for our priceless behavioral advice will inevitably atrophy the longer they go without needing to use it.

Conscious understanding of—and appreciation for—our fee as the essence of Big Mistake insurance is thus a lot like Vitamin C in the human body: the clients’ psyches can’t store it.

There are a couple of approaches we can take to this sad fact of life. One is to ignore it, assuming that if the clients aren’t complaining, they still understand and appreciate our function. Then one day we get the email that says, “Tell me again why I’m paying you all this money to underperform the S&P 500.” The other approach is to have a conscious program of reinforcing it—of reminding people that, beyond planning, our essential function is keeping them on the plan in times of great stress.

People need to be reminded, subtly but more or less systematically, that if they’ve gone a year without attempting to go to cash in a bear market or move significant assets into some hot new fad, your value not only hasn’t diminished but has if anything grown: that the premium paid is well-earned in the fact that the house has not burned down.

One none-too-subtle way of putting an exclamation point on your value proposition, as was suggested in this space in August (“Seeking introductions post-crisis”), is to write a strong request for introductions/referrals to all clients whom you’ve behaviorally guided through a stressful episode. This catches them at a moment when their appreciation for you should be near a peak, and it says in no uncertain terms, “That was exactly what you’ve been paying me for.”

But today we’re addressing the issue of how to top up clients’ understanding of—and appreciation for—paying the better part of their annual fee for the privilege of hearing you say, at random but always critical moments, “You mustn’t do that.”

This conversation has to be had at a minimum of once a year. The most logical moment is in your rigorous, hands-on annual review meeting—the content of which you may soon start thinking about. But however and whenever you repeat it, don’t think of doing so any less than annually, and never in passing, or obliquely.

Assuming for the moment that your fee is one percent of the assets under management, the question was, is now, and ever shall be:

Does it seem probable to you that my advice will either (a) cause your lifetime return to rise more than one percent per year because of more appropriate investment choices, and/or (b) save you the equivalent of more than one percent per year in time, worry and record-keeping, and/or (c) save you one percent per year if not much more in the cost of mistakes I might help you avoid making?”

This is, quite clearly, a statement disguised as a question, deliberately underlining the fact that it doesn’t matter what we know about the wildly positive nature of our value proposition; it matters only how the client perceives it. The “question” has to be asked again a minimum of once a year. How and when you do so is entirely up to you. But do it.
Aqaba, From The Landward Side

FROM 11/16 ISSUE

In David Lean’s magnificent film Lawrence of Arabia, the protagonist’s first great coup—the miracle that binds the Arab Revolt to him personally—is the taking of the Red Sea fortress city of Aqaba from the landward side.

Lawrence’s epiphany is that all the Turkish guns at Aqaba are trained on the sea and cannot be turned around, as the city’s rear is protected by a desert too vast to be crossed. Lawrence and his ragtag force cross it, and thereby triumph.

If you don’t find this too terribly much of a stretch, I think we advisors are a little like Aqaba. All our professional guns are trained on managing and defeating the existential terror which has become our clients’ default setting since the dot-com bubble burst, nearly seventeen years ago—to the point where we are defenseless against attack from the other direction. And, the great cycle of investor psychology being what it is, that attack is surely coming.

This newsletter has maintained with mounting stridency that the public’s proclivity to panic at even the most quotidian correction demonstrates that the great bull market which began close to eight years ago has much further to run. Citing the three great manias of the last hundred years—the 1920s, the 1960s and the 1990s—we have held unequivocally to the belief that no great, secular bull market can finally end until the public’s proclivity to panic at even the most quotidian correction demonstrates that the great bull market which began close to eight years ago has much further to run. Citing the three great manias of the last hundred years—the 1920s, the 1960s and the 1990s—we have held unequivocally to the belief that no great, secular bull market can finally end until the investing public is utterly mindless of any risk other than that someone else is getting richer than they.

The implications of this are quite profound from the standpoint of an advisor attempting to create a robust business strategy. To begin with, there is the simple but very telling fact that you can be a fifteen-year veteran of this profession and never have seen a serious outbreak of performance mania. It is all but certain that you were not trained to deal with one—the equity markets were in free fall when you got here—and you have certainly had no useful subsequent experience.

Moreover, even the minority of advisors who’ve been here long enough to experience the dot.com mania in full force have largely if not completely forgotten what it was like, since it gave way at the turn of the century to not one but the two biggest bear markets since the 1929-32 experience. Their clients and prospects have long since trained all their guns on the sea, to the point where the 2016 Wells Fargo Retirement Study found six out of ten respondents more focused on avoiding loss than on maximizing the growth of their retirement investments. Dealing with fear is just about all these advisors have been doing as long as they can remember.

And even I—or should I say especially I—am keenly aware that the first signs of performance mania may still be a long way off. That belief is, after all, the very wellspring of my frothing-at-the-mouth, table-pounding bullishness: I stoutly maintain that we are much more likely to experience a market meltup than a meltdown in the next block of time, precisely because no one considers this even a remote possibility.

But at whatever speed and on whatever trajectory, have no doubt that mania is coming. It literally, in Polonius’ words, must follow as the night the day. This has much less to do with economics or finance than it does with human nature, which is quite immutable.

So it seems to me that, as rational long-term business strategists, we have a couple of choices. One is to say, in effect: “Thanks, but I only have so many hours in a day and so many ergs of energy, and—as you yourself noted—I’m still getting shelled from all parts of the sea every time the market hiccup.

Sufficient unto the day are the evils thereof. I’ll deal with mania in its season, whenever the hell that turns out to be.” This is at least a conscious, thought-out response. It’s wrong, but at least it’s aware.

Alternatively, as you’re beginning to think about your year-end communications/meetings, you might consider—in one paragraph of your annual letter, or in a few minutes of conversation during the meeting—raising this issue. Remind people that the market cycle is driven at both extremes by excesses of emotion, and that your long-term value to a client family is as a behavioral coach, there to serve as an antidote to new-era euphoria every bit as much as apocalyptic fear.

If nothing else, this will serve to remind people of where we are on that cycle: to wit, much closer to the bottom than the top. And if that’s all this exercise did, it would still be well worth doing.

A day is coming when your phone will ring. And instead of sounding like the last ten thousand calls you’ve gotten in the last two decades—“Shouldn’t we get out of the market because of this (fill-in-the-blank) crisis?”—the voice on the other end will suggest that you are not getting them anywhere near enough hot performance. You know not the day nor the hour; you just know that call is coming. And then another just like it. And then another.

Any financial planner worthy of the name underperforms in mania markets. She wears that underperformance like a badge of honor, because it signals two critical things. First, that the portfolio with which she’s endowed her client is the one best suited to his long-term goals rather than to the fad of the moment. And second, that she is continuing to practice disciplined diversification: her clients don’t own enough of any one idea to make a killing in it, nor enough to get killed by it.

You don’t want to be just starting to dust off these arguments when the calls and emails about “underperformance” are coming at you like tracer bullets. You want to start a quiet but regular program of inoculation against mania...right about now.
FROM 6/16 ISSUE

Just the other day, I was at a lovely club in downtown Jacksonville, Florida, waiting to speak at a luncheon meeting of about a hundred financial advisors.

Suddenly, one of the advisors came bursting out of the room where the audience was finishing their lunch, and accosted me. “One question,” he said, “and I want your honest answer.” (As if I ever give anyone any other kind—maybe he was thinking of himself.)

“The United States is bankrupt,” he began. I was constrained to stop him there, and to report, in no particular order, that (a) I was unaware that the United States was, is currently, or is about to go bankrupt, and (b) that wasn’t a question.

He babbled on—I couldn’t follow most of it—until I simply had to excuse myself on the grounds that I was preparing a talk to a hundred people. As he wandered away, I thought, “Wow. This is getting pandemic. Now it’s not just the investors who are getting the Debtmageddon phobia; the disease is spreading to advisors who should know better.”

Hence this little essay.

To begin, let’s see if there’s anything about this situation that we can all agree on. I propose three stipulations. (1) The total federal debt is just now crossing $19 trillion, counting what the government owes itself in things like the totally misnamed Social Security Trust Fund. (2) The debt has about doubled in the last dozen years, and now exceeds U.S. GDP. (3) It continues to grow at a rate in excess of U.S. GDP growth, a trajectory which must at some point become unsustainable.

I don’t think any reasonable observer denies any of these three statements. I would, however, draw your attention to three words in the third stipulation: at some point. The questions before us all, it seems to me, are (1) when and in what form will that point arrive, and (2) how does the individual investor make rational investment policy out of these three stipulations in the meantime.

We must, first of all, not shrink from the fundamental idea that, on its current trajectory, the growth of the debt will become unsustainable at some point. But that point isn’t here yet, nor is it immediately visible on the horizon. And how does any clear-eyed observer of the situation draw that conclusion? Why, simply by looking at the world’s continuing willingness—nay, eagerness—to finance our debt at negligible interest rates.

On the afternoon that I write—indeed, at the very moment—the interest rate on the U.S. Treasury’s 10-year note is precisely 1.8490%. (Can we call it 1.85%, just for simplicity’s sake?) That is, when the whole world woke up this morning, the blended outlook of all the investors on the planet was that the U.S. is so overwhelmingly likely to make timely payments of principal and interest in today’s dollars over the next decade that they were willing to lend us money at a paltry 1.85%.

The implications of this factoid for Debtmageddon catastrophists seem especially foreboding.

You see, to hold the view that America’s sovereign debt is about to hit a wall, and to incinerate us all in a fiery crash, is to say that you know something that the consensus of the whole world’s wealth clearly does not. This certainly doesn’t, in and of itself, make you wrong. But it does oh-so-gently suggest that you may be somewhat overconfident in your assessment of the situation.

(However anecdotally, let me interject here the personal observation that every single time in my half-century career as an investor that I was convinced I was right and the whole world was wrong, I was sadly and sorely mistaken.)

Next, we must face the fact that Debtmageddon—or indeed any economic extinction theory—is premised on an extrapolation. It is undeniable that on its current trajectory—the rate in excess of our country’s GDP—the debt must become unsustainable at some point. The critical assumption is implicit in the phrase “on its current trajectory.” But as Herbert Stein, Chairman of Presidents Nixon and Ford’s Council of Economic Advisors, famously said: if something cannot go on forever, it will stop. Debtmageddon holds that Stein’s Law does not obtain here—that this time is different. In this view, the particular thing that currently can’t go on forever will not stop. Instead, we will drive over the cliff, never braking nor turning the wheel.
It’s a theory, I guess, but it’s totally unsupported by the historical record. For while granting that democracies don’t usually make the hard decisions until the spaghetti is hitting the fan, we Americans do seem ultimately to make them. No less acerbic an observer than Winston Churchill noted that about us when he said that one can always count on America to do the right thing—after we’ve tried everything else.

Third, for this longtime student of investor psychology, there is the problem that Debtmageddon is the ultimate Known Unknown. And in my experience, it’s never the known unknowns that get you.

Think back—if you can even remember some of these incipient “crises”—to all of the things everybody was sure were going to derail the markets, if not the economy, if not human life on Earth, just since the turn of this century: Y2K, 9/11, the SARS quarantine (a billion Chinese wearing surgical masks on TV every night), the inevitable stock market crash when the baby boomers hit retirement age and started selling, bird flu, the debt ceiling crisis/government shutdown, swine flu, the implosion of the eurozone, the fiscal cliff, Ebola, ISIS. These were the quintessence of known unknowns: they were all anybody talked about, because they were universally seen as heralding The End of Economic Life on the Planet as We Have Known It.

And when existential financial/economic crisis finally did show up, from whence did it come? Why, from the American single family home—where no one was looking for it. It was the ultimate Unknown Unknown.

Finally, there is the overriding issue, for the individual investor, of how to make investment policy out of Debtmageddon—if, when and in whatever form it eventuates. Since you’re not going to be able to postpone your retirement until you can make a clear assessment of this situation and get your portfolio in shape for it, what do you do today, tomorrow or next week?

This is not at all a rhetorical question—it’s where the rubber meets the road—and I will cheerfully leave it to you and your financial advisor to explore together.

I simply ask: is your financial planning going to be based on the realities of your life—hopes, dreams, goals, retirement date—or on an apocalyptic speculation?

© June 2016 Nick Murray. All rights reserved.

The Back Of The Card

FROM 5/16 ISSUE

I suggested in March, when I published my latest official unofficial arbitrary bear market chart, that a laminated copy be handed to every new client during the onboard ing process, and sent to all clients annually. Because two things are mission critical in our journey as Behavioral Investment Counselors.

First, we must prepare our equity investors to watch an average of a third of their peak capital sum appear to disappear on an average of every five years or so, and not panic. Second, we must clearly establish in our clients’ consciousness that when the time comes, we will serve as the antidote to the capitulation impulse, and that function alone is the preponderance of our value proposition.

Then I guess I started thinking about what we might put on the back of the card. When I do stuff like that, and an answer doesn’t immediately come, I hand it over to my unconscious—which is almost immeasurably smarter than I am—in the spirit of, “Here; noodle with this while I do other stuff.”

Sometimes it works, and sometimes it doesn’t.

In early April, I was talking with Consuelo Mack about our upcoming interview on her WealthTrack PBS program, trying to explicate the behavioral value proposition to someone who spends most of her time and energy among timing and selection people. With no conscious thought, the percentages you see below popped out.

“That’s very clear,” she said. And I thought, “It’s also the back of that card.” Today, dear reader, it is my gift to you.

So without further ado, as they say:

WHAT WE DO/HOW WE EARN OUR FEE

| Quantifying goals, crafting a long-term plan, funding the plan with a long-term portfolio | 20% |
| Coaching clients to continue working the plan through all the cycles of the economy and all the fads and fears of the market | 80% |
| Analyzing/interpreting the economy and current events | 0% |
| Timing the market, calling tops and bottoms | 0% |
| Identifying consistently top-performing investments | 0% |

Total: 100%

Please advise any questions at any time. Thank you for your trust and confidence.

(signed)
Do you have a recommended client service model? I do a comprehensive financial planning meeting with each client once per year. I struggle to communicate with my clients between meetings. Some industry coaches recommend calling your clients monthly but I have no idea what we would talk about.

Any thoughts on frequency and method of client contact?

The good news—and I consider it very good news indeed—is that you’re a financial planner, and intuit that the annual meeting is the tent pole for the entire client communication protocol. The not-so-good news is that you haven’t established what else is in the tent.

The short answer is that this should always be done during the onboarding process, at which time you work it out with the client. The principle is: you never walk out of the onboarding meeting without firmly and clearly establishing the communication protocol.

It rests on two bedrock ideas, again to be established the day the folks board the Ark:

First, you’re certainly going to have a deeply meaningful annual review to make sure the goals and/or family situation haven’t changed, to reinforce their commitment to the plan, and to measure the progress of the plan toward its goal, and certainly not in relation to some benchmark(s).

Second, you are certainly not going to report anything quarterly—formally, informally, by smoke signals, or any other way. Nothing that happens in 90 days can have any bearing on a long-term plan, and quarterly reviews inevitably degenerate into performance measurement—how we did vs. the S&P during the latest meaningless blink of an eye.

Beyond that, it should be as individual as fingerprints. I would approach the subject on that
first day of onboarding as follows:

“I suggest the following communication plan, if you’re comfortable with it. First and foremost, you must call me any time for any reason whatever. Please don’t ever hesitate.

“Next, I’ll certainly call you if and when something is going on that’s important enough to require a decision of some sort. Since we’ll always be acting on our plan, and never reacting to current events, this will rarely happen.

“When something is happening in the markets that I think most of my clients will be concerned about, I’ll probably send out one email to everybody. For example, whenever the market enters correction territory—down 10% on a closing basis—I’ll almost always send everyone an email.

“When we enter bear market territory—down 20% on a closing basis, which we expect to happen one year in five or so—I send out a little first aid kit, commenting generally on the situation, but reminding everyone that this is how we earn equity returns—by braving the downturns. I’ll also ask everyone if they have some additional money they can add to their account before the sale ends.

“Day in and day out, I read a lot of good commentary, and once in a while I’ll send out a piece that I think is noteworthy, and helpful in clarifying the path we’re on.

“Other than that, not much. It’s deliberately relaxed, informal, friendly—but most of all open, in both directions.

“Does that sound comfortable to you? Or do we need to tweak it in some way?”

What I know and they don’t is that once or twice a month (“I read a lot of good commentary”), I’ll be sending them something from a Wesbury, or a Paulsen, or some other clear-thinking commentator. Come to think of it, I guess if I’m you I might send them the occasional Client’s Corner. The upshot is that they’re going to hear from me—however informally and even randomly—a couple of dozen times a year, anyway.

In addition to all its other uses, if this genial, relaxed approach runs into a lot of pushback on Day One, it may be an important sign that you’re in the process of making a mistake. In that sense, this is one last way of de-selecting the crazies before they get on the Ark.

planning and 80% behavioral coaching at critical market turning points; everything else is pretty much a refinement.”)
Assume further that the prospect affects not to understand the behavioral part, or discounts its importance to him. We ask him a question, either in general or specific terms:

(SPECIFIC) “During the great financial crisis of 2008–09, when the equity market went down by over 50%, did you sell all or a substantial part of your equity investments?”

(GENERAL) “Have you ever sold all or a substantial part of your equity investments during a crisis and a major market decline?”

The Only Honest Answer: “Yes.”

Our Value Statement: “Had I been your advisor at that time, you wouldn’t have done that. (Pause) You can’t have failed to notice, perhaps painfully, that most if not all of the equity investments you sold in a/the crisis are now substantially more valuable. My behavioral coaching of my clients—not to give in to fear, to realize that all declines have historically been temporary, and for very good reason—made all the difference. I persuaded them not to make the very human Big Mistake, and the gains from that strategy far exceeded the cost of my coaching. Can you see now the value of having an advisor who functions, in essence, as Big Mistake insurance?”

That concluding statement of our essential value—no matter how slowly you say it, for emphasis—cannot take one full minute to make.

Nor can you fail to elicit the right response, even and especially when it isn’t the response you wanted. Someone who responds to the initial question by denying that he ever sold in a panic, or to the value statement by implying that you’re still not worth what you cost, is giving you the right answer: “I will not admit that I need your help and/or I do not want it.” Take him at his word. Or proceed at your own risk.
As recently as 1975, half the world’s population lived in extreme poverty, as commonly defined. By the turn of the century, only one in four did. Today a mere one in ten does—and the trend is still improving. From the dawn of man until I graduated high school, a majority of global adults were illiterate; today 85% of adults are literate, and again that rate is still rising. For the last 25 years, 285,000 people have gained access to clean water every day.

Yet the public in general—and heaven knows the investing public in particular—believes that virtually everything is getting worse. Poverty, violence, inequality, the environment, you name it: people are convinced the world is going to hell in a handbasket. Just this past month, a poll released by the Dutch firm Motivaction found that only one percent of Americans surveyed realized that global extreme poverty had fallen by half over the last twenty years. That’s exactly why the most important book published this year is Johan Norberg’s Progress: Ten Reasons to Look Forward to the Future. Intellectually, it’s my Book of the Year. (Emotionally, that honor still goes to Bob Benmosche’s sadly posthumous autobiography, Good for the Money.)

Mr. Norberg is a Swedish scholar, and a senior fellow of the Cato Institute. In Progress, he sets out to document the unprecedented (and accelerating) positive trends in ten of the major areas of human experience, from food and sanitation to life expectancy and even freedom. (Unsurprisingly, he finds that economic growth is the closest thing humankind has to a magic bullet.) If Mr. Norberg is not the sparkling writer that Matt Ridley was in the previously most important book on this subject, The Rational Optimist—and if it may seem at times that he has never met a statistic he didn’t like—in the end his conclusions are as ennobling as they are inarguable. A drop-dead critical read for advisors, and a worthy holiday gift for your more thoughtful clients and better prospects.

The word “bubble” is thrown around so much these days that it has ceased to have any objective meaning. No one with an adult memory of the equity market at the turn of the year 2000—never mind 1968—thinks we’re in a stock market bubble, and no one who can rent The Big Short thinks we’re in a real estate/housing bubble anywhere but northern California, and maybe not even there anymore. The critical faculty, as always, is an adult memory.

For those without said faculty (and/or who’ve never read Edward Chancellor’s classic Devil Take the Hindmost), Ben Carlson’s September 18 posting “The Greatest Bubble of All-Time?” is a fond look back at the stock and property market bubble which enveloped Japan in the 1980s, and from which the country has never recovered. Return with Ben now to those thrilling days of yesteryear when, on a per-square-foot basis, the grounds of the Imperial Palace were held to be worth more than all the real estate in California, or even Canada. We had real bubbles in those days.