To the Prospective Subscriber

Nick Murray Interactive, now in its eighteenth 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.

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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.*

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It is a terrible mistake for investors with long-term horizons—among them, pension funds, college endowments and savings-minded individuals—to measure their investment “risk” by their portfolio’s ratio of bonds to stocks. Often, high-grade bonds in an investment portfolio increase its risk. —Warren Buffett, 2018 shareholder letter, page 13 (emphasis in the original)
Notes on the Golden Age of Holistic Retirement Planning

FROM 6/17 ISSUE
(This essay is adapted from Nick’s keynote at Financial Advisor magazine’s “Inside Retirement 2017” symposium in Dallas on May 12, 2017.)

MY VERY FAVORITE COLOQUY IN THE ENTIRE SHERLOCK Holmes canon is that which takes place between Holmes and the astute Inspector Gregory in the story “Silver Blaze.”

Gregory: “Is there any point to which you would wish to draw my attention?”

Holmes: “To the curious incident of the dog in the night-time.”

Gregory: “The dog did nothing in the night-time.”

Holmes: “That was the curious incident.”

This exchange has been brought home to me quite forcibly as I’ve gone around the country this spring, expressing my conviction (a) that holistic retirement planning (as I shall shortly define it) is among the noblest pursuits and finest achievements of our profession, and (b) that we are even now in its golden age.

I am more or less inured to finding among my audiences a certain degree of skepticism regarding these or indeed any optimistic assertions, and about my corollary contention: that we will never be allowed to charge for it a fraction of what holistic retirement planning is really worth—that its practice is the pure essence of a positive advisory value proposition in and of itself.

Financial advisors are, as a general statement, extraordinarily skillful at perceiving the hole to the complete exclusion of the donut, as well as the proverbial half empty glass. But these days, across the length and breadth of this great land, I’ve found them beyond skeptical, and even beyond their normal situational depression. Rather, they seem as often as not to be somewhere between clinically depressed and borderline suicidal.

I may go so far as to say that, in the 25 years I’ve been on the speaking circuit pretty much full time, I’ve never found financial advisors so morbidly focused on the negative while so much around them is so overwhelmingly positive.

I find this, to say the least…curious.

Allow me, therefore, to intrude briefly upon your myriad vexations, and to offer a few late-breaking headlines from the real world:

• For the very first time in this century, all of the major economic theaters of the world are growing, and at an accelerating pace. We are thus in a virtually Goldilocks period of coordinated global growth (albeit at widely differing rates) with restrained inflation; I will argue that this, far more than some simplistic notion of a “Trump bump,” is responsible for the powerful upsurge in equity values over the last six months.

• The U.S. unemployment rate in April was 4.4%, down from 9.9% in April 2010, long after the Great Recession was held to have ended. Part-time workers are increasingly able to find full-time work, and even the lamentable labor force participation rate is beginning to edge up.

• Americans are far richer than they have ever been, and their balance sheets are healthier than they have been in decades. Household net worth in 1Q17 surged above $95 trillion, with both single-family home values and financial assets making new all-time highs. (For perspective, household net worth at its 2007 pre-recession peak was $68 trillion. It thus seems inevitable that somewhere around the turn of the year, it will exceed that peak by half.) Moreover, the household debt service ratio—that is, household debt service as a percentage of disposable personal income—was a mere 10%, a level it has not seen since at least 1980.

• Corporate cash as a percentage of current assets remains around 30%, or about twice what it was heading into the stock market collapse of 2000. Banks’ excess reserves—where the idiocy of Quantitative Easing went to die—stand at about $2.5 trillion. Again just for perspective, the morning after the Lehman Brothers bankruptcy in September 2008 excess reserves were—wait for it—zero.

• Combining elements of the two bullet points above, we may observe that never in American economic history have the balance sheets of banks, corporations and households been simultaneously stronger.

• After a significant pause due to the global oil depression, corporate earnings are once again surging. The consensus calendar 2017 earnings estimate for the S&P 500 is $131, and for 2018 $147; both will be records. (The consensus 12-month estimate May 2017 through April 2018 is $137; we will have occasion to revisit this number shortly.)

• Though corporate earnings and stock prices get all the headlines, and even as bond and savings yields remain negligible, the upsurge in corporate cash dividends has been nothing short of spectacular. Coming out of the Great Recession and an agonizingly slow recovery, the dividend of the S&P 500 still managed to post a new all-time high of $30.44 in 2012. Just four years later, in 2016, the dividend had risen very nearly 50%, to $45.03.

One can literally go on and on like this. And there’s nothing the least bit ambiguous, let alone curious, about any of it. These are the incontrovertible economic and financial facts of the case, in plain sight. What I find almost beyond curious—indeed, verging on the pathological—is advisors’ ability to set all these miracles aside, and to obsess instead about every headwind, real or imagined, with which they allege our profession to be beset on every side.

These include, but are certainly not limited to, (a) the terrible, horrible, catastrophic DOL “fiduciary” rule; (b) the transcendentally silly and rapidly disappearing robo advisor phenomenon; (c) “fee compression” and a race to the bottom in advisor compensation, as more and more of what we do allegedly becomes commoditized; (d)
Notes on the Golden Age of Holistic Retirement Planning

“competition,” whatever that concept is held to imply in anyone’s fevered imagination; (e) “historically unprecedented overvaluation” in the stock market; and last but certainly not least (f) Trump—again, whatever that horrific monosyllable is held to imply.

As to the DOL: I was born a fiduciary, and I do not need the government—which never gets anything right—to tell me what a fiduciary is or does. The rule will fall equally upon all of us, and we will comply with it. The best of us will still be the best of us. Robo advisor: too stupid to comment on again, and the whole caravanserai is collapsing as we speak (see “Robodeath,” March 2017). Fee compression: our price is only an issue to the extent our value is in question; people who attempt to commoditize our priceless advice should be warmly encouraged to seek other, more economical counsel. Ditto “competition.”

Overvaluation: a pernicious if universal journalistic myth. The S&P 500 as I write is just above 2,400; the 12-month forward earnings estimate, you’ll remember, is $137. The forward P/E is therefore 17.5 vs. a 25-year average of 16. But the 25-year average yield on the 10-year Treasury is 4.5%; today it’s 2.4%. Corporate earnings (and the growth thereof) are therefore simply worth more than average. “Everything in valuation gets back to interest rates.” I didn’t say that; Warren Buffett did, over and over again, in a number of recent interviews.

Which brings us to Trump. If I seem excessively sanguine on this issue, please try to understand my bias: I survived Carter.

Indeed, I survived what were—economically and financially—the four worst presidents in a row since Taylor, Fillmore, Pierce and Buchanan. To wit: Johnson, Nixon, Ford (a genuinely admirable man, but an economic illiterate) and Carter. It was Carter more than any of them who brought stagflation down upon us—high inflation and deep recession, which the Keynesian synthesis had held to be impossible. (Whereupon he suggested that it was we who were in the grip of a malaise.)

For those who think a New York real estate developer is likely to drive the economy into a significantly deeper ditch than did a nuclear engineer turned peanut farmer, I offer the following highly selective juxtapositions of their respective first years in office:

<table>
<thead>
<tr>
<th>Carter (1977 actual)</th>
<th>Trump (2017 estimated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP per capita</td>
<td>$26,900</td>
</tr>
<tr>
<td>S&amp;P 500 earnings</td>
<td>$10</td>
</tr>
<tr>
<td>S&amp;P 500 dividend</td>
<td>$4.30</td>
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</tbody>
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Again, one can go on and on like this, but perhaps we might offer just one more potentially relevant comparison. On Day 100 of the Carter administration in 1977, the S&P 500 stood at 100. On Day 100 of the Trump administration, it stood at 2,400. (A tiny bit of rounding has been used here for effect.) And what that suggests, if it doesn’t absolutely prove, is this: anybody who liquidates his long-term equity holdings because of who’s in the White House should be committed to a long-term inpatient mental health facility where he can get the intensive therapeutic care he so desperately needs.

(Note: in no way is any of the foregoing to be taken as advocacy for Donald J. Trump, who is actually quite similar to Carter in that both are outsiders elected to drain the swamp, only to run immediately afool of their own incompetence and personality dysfunctions. Rather, it is to be read as a passionate statement of the truth that rational capital always outsmands and ultimately outlasts irrational presidents. This is indeed the genius of democratic capitalism. (See the accompanying Client’s Corner.)

Which brings us, at long last, to the issue of holistic retirement planning in its great golden age.

We begin by defining the term. Holistic retirement planning, to me, is a comprehensive process that involves deciding on goals and implementing the appropriate strategies for:

• Accumulation, which sets a specific dollar target, to be reached on a specific date, that will fund a dignified, independent retirement.
• Distribution at a rate—escalated annually to offset inflation—significantly below the earnings of the remaining capital.
• Legacy, which is the inevitable result of withdrawing less than the capital is earning over the investors’ retired lives.

Carried to its logical conclusion, then, holistic retirement planning should result in a retired couple’s invested net worth (to the extent they haven’t already given it away) being at its zenith close to the time of the second death. This becomes, as longtime readers of my work know, my conception of wealth: that, like a river, it widens and deepens as it falls down through the generations.

Even the best-educated of our countrymen are not capable of creating these plans, much less abiding by them through decades of fears and fads. Can there be a finer profession, or a nobler calling, than the stewardship of this process—of doing for affluent families that which they cannot do for themselves? I think not.

And this, as I’ve already suggested, is that profession’s finest hour:

• Approximately ten thousand people are retiring in this country every day; this will go on at least through 2029, the year the last baby boomer reaches age 65. Note, too, that the baby boomers—currently between the ages of 53 and 71—are in the process of becoming the greatest legatees in history. Meanwhile, seventeen hundred new financial millionaires are being minted in America every day.
• There are on any given day something like forty million Americans who find themselves between their fiftieth birthdays.
and their retirement dates. And we know that age 50 is about the time when—if they’re ever going to do so—people get actively and indeed painfully conscious that they haven’t planned adequately for retirement, nor are they saving enough.

- Even if we halve that population—on the thesis that half of all American retirees will continue in the future, as indeed they do now, to end up living entirely on Social Security—we still have a prospect pool beyond anything our profession has ever encountered. (And some three million new names are added to that prospect file every year.)

- Nor is it the case that the remaining twenty million or so are not saving for retirement. They are, and on an unprecedented scale. While many older people still pine for the days of the defined benefit pension plan, the fact is that fewer than 40% of the workforce ever had one. But today the Social Security Administration finds that 61% of all workers, and 80% of married couples, are saving in a retirement plan.

- Moreover, the volume of retirement savings—absolutely and relative to the broader economy—is quite staggering. Federal Reserve data show that from 1981 to 2016, the total balances in 401(k)s, traditional pensions, IRAs and other retirement plans rose from 58% of GDP to 153%. If there was no “retirement crisis” 35 years ago, there certainly isn’t one now.

This, then, is my definition of a golden age. The net worth of our target market—the mass affluent—continues to reach previously unimaginable heights, with massive sums already earmarked for retirement. Yet the people are without the training and tools to craft robust accumulation and distribution strategies on their own.

Far more importantly, even when we’ve endowed them with such plans (as only we can), human nature will, for years and decades, cause them to try to blow those plans up—through panic in falling markets and mindless overreaching at tops—without the constant intervention of an empathetic but tough-loving advisor. Once more, with feeling: lifetime investing is one part intellectual and nineteen parts temperamental. And because of its quite terrible biases—the very worst of which is that it responds to the capital markets pro-cyclically—that dearth of what I insist on terming rational optimism your client will hear. Moreover, whenever it may be, on any given day, the only vibrant voice of long-term rational optimism your client will hear. Moreover, whenever the equity market is down twenty percent, I guarantee that you will be that lone voice.

Far more is that the holistic retirement planner’s value proposition: 20% lifetime planning, 80% preventing the clients from blowing the plan up, as they may try to do numberless times over that lifetime. I maintain that the combined value to a client couple of these two enterprises exceeds anything we will ever be allowed to charge them for it by at least one order of magnitude.

(You will not have failed to notice that, in my formulation, planning and behavioral coaching sum to 100% of an advisor’s value. I assign zero value to fool’s errands such as analyzing the current economy, the state of the capital markets or past performance of similar investments, which have no place in the long-term planning process, and indeed can only skew it harmfully. Moreover, dispensing with these ephemera will free up somewhere between ninety minutes and two hours of the average advisor’s business day, in addition to saving him/her an incalculable quantum of stress.)

If there were ever a moment to be transcendently optimistic about our capacity to do good—and to prosper mightily—among the mass affluent, surely this is that moment.

But the even larger truth is that if there were ever a moment to be optimistic about the America’s and the world’s economic future—with the cloud, big data, AI, robotics, 3D printing, fracking—this is that moment as well.

Our mass affluent clients and prospects—even as they continue to do so well, absolutely and relative to the population at large—do not seem to be sufficiently aware of this. Or perhaps it may be more accurate to say that, despite the evidence of their own lives, they don’t feel it. That dearth of what I insist on terming rational optimism tends to hold them back from a fuller life, not just as investors but as people.

You and I are, and indeed must be, the antidote. As I have said so often in this newsletter—and will surely say again—you may be, on any given day, the only vibrant voice of long-term rational optimism your client will hear. Moreover, whenever the equity market is down twenty percent, I guarantee that you will be that lone voice.

Surely this is a great gift, and a mighty power. But it carries with it a solemn responsibility: to wit, you can’t fake it. You cannot successfully inoculate people with a faith in the future—in the rationality of free-market capitalism, and of the capital markets—that you yourself don’t possess. If we advisors manifest fear and even confusion—much less pessimism—the clients perish. This is a law of nature.
Two Lights Along Your Pathway

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FROM 11/17 ISSUE

THE EQUITY MARKET OBSERVED A COUPLE of minor milestones during the last few weeks that—if you will allow them to do so—may serve as lights along your path to becoming a successful lifetime investor.

In the first, the S&P 500—with dividends reinvested—reached a level that was exactly twice its 2007 peak. In the second, Warren Buffett won his bet.

October 9, 2007 marked an all-time closing high for the S&P 500. But there were already storm clouds on equities’ horizon. Two hugely leveraged subprime mortgage hedge funds managed by Bear Stearns had gone bankrupt at the end of July, and there was a dawning sense that the supposedly recession-proof housing market was in fact collapsing. Still, the equity market had staggered on until that fateful October day.

What followed, over exactly seventeen months, was the greatest decline in stock prices since the 1929-32 event. Peak to trough, and ignoring dividends, the S&P 500 went down 57%, finally bottoming out on March 9, 2009.

Now, suppose you had invested in the S&P 500 at the 2007 peak and held on—indeed, reinvesting your dividends as you went along (You can’t actually buy an index, but you get the idea.) Well, one day around the beginning of this October, your holding would have been worth almost exactly twice what you paid for it—a compound annual rate of return of 7.2%.

The other little ray of sunshine that illuminated the investment landscape these past few weeks is that Warren Buffett won his million dollar bet with a Mr. Ted Seldes, co-manager of a fund of hedge funds—that is, a fund that invests in multiple other hedge funds.

Specifically, Mr. Buffett bet a million dollars (for charity) that the Vanguard S&P 500 Index Fund would outperform, over a ten-year period to December 31, 2017, a portfolio of any five funds of hedge funds, net of fees and expenses. Mr. Seldes, taking up the gauntlet, chose five funds of funds with total exposure to more than a hundred different hedge funds.

It will not have escaped your notice that the end date of the bet is still two months away. This turns out not to matter. The S&P 500 Index fund is so far ahead of Mr. Seldes’ portfolio that he cannot possibly catch up.

To me, the lesson of this experience is: no matter how well a highly complex, very expensive investment strategy appears to have done in the very recent past, it’s very difficult for that kind of “sophisticated” strategy to outperform buying portfolios of high-quality equities and just sitting still for the long run.

In the age-old race between the tortoise and the hare, my money—and I hope yours—is always on the tortoise.

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“Investors still do not fully appreciate the magnitude of opportunity cost they have paid to alleviate their fears that 2008 would repeat...Fear has caused 2017 to largely be another year of missed opportunities, and we remain bullish on the global equity markets for 2018 based on our previously stated considerations of improving global profits, significant liquidity, and investors’ general hesitancy to embrace equities.”

—Richard Bernstein, “Insights,” December 2017 (emphasis added)
FROM 3/18 ISSUE
THE “RIGHT” BLEND OF EMPATHY AND STOICISM

Q I welcome the February volatility and hope it persists, as I believe that the uninterrupted advance since the election has masked a lot of incompetent advisors and given too many investors a false sense of security. But I’m finding myself somewhat less empathetic to worried phone calls than I might wish to be. (How many times have I told people that corrections are the annual norm?) Any specific recommendations for newsletter pieces or entries in *Around the Year* on empathy, or do I just give them straight Spartan stoicism and see who peels off?

A I think the wisdom is in realizing that you’re going for a blend of stoicism and empathy; they’re not either/or. I wouldn’t presume to dictate to an advisor what that blend “should” be, (a) because it’s probably unique to each advisor and (b) because it probably ought to be adjusted for each client, depending to some extent on his/her current degree of alarm. In the end, of course, the outcome will be determined not by today’s blend of stoicism/empathy, but on how well you’ve trained the client, going all the way back to on-boarding.

Your mantra: it’s OK to feel the fear—Mr./Ms. Client, you mightn’t be human if you didn’t feel it. It’s just not OK to give in to the feeling. (See October 24 in *Around the Year*.) Experiencing a fear-based impulse and acting on that impulse are two different things; the advisor’s highest function is helping the client disconnect the impulse from the act. Stoicism moderated by fellow feeling seems to me a pretty good definition of tough...
Interviewed a prospect who has about $1 million in company stock, and is therefore terribly underdiversified in that total net worth with 401k is $2 million. How might you respond to the following email?

“It was a pleasure meeting with you last Friday. We are very interested in moving forward. Before we sign up, I have three questions. Please note, we’ve never had this much money and we’ve never handed this much money over to anyone…so we’re a little, well, afraid. Thinking of starting with $150K and increasing from there linked to a diversification strategy. Questions:

1. Do you have any client references that it would be OK for us to chat with?
2. How much money do you manage across all of your customers?
3. Is there any movement in the management fee percentage?”

A I would write back:

Thank you very much for considering my firm and me as your financial advisor. I don’t believe there’s a basis to move forward here, and would recommend you continue to seek other counsel, with an eye toward finding someone you intuitively trust to serve you well. Please know that I wish you every success. Thanks again. Sincerely,

Then I would frame this email with a legend beneath it, saying (as a message to myself):

My first job is to make myself trusted implicitly. I failed here, but elected to make believe I didn’t know I had failed. I will not make this mistake again.
FROM 4/18 ISSUE

Steven Pinker’s new book Enlightenment Now: The Case for Reason, Science, Humanism and Progress, which Bill Gates has called “my new favorite book of all time,” takes its place alongside the two other classics of the genre, Matt Ridley’s The Rational Optimist (2011) and Johan Norberg’s Progress (2016). It is an extremely rigorous and extensively documented exposition of the rate at which human life since the Enlightenment has gotten—and is continuing to get—astonishingly better. This is certainly not to say the book is flawless, but simply to assert its indispensability.

Professor Pinker charts (literally) life expectancy, wealth, the environment, literacy, sustenance, peace and many other measures to demonstrate the extent and the speed of accumulating progress. And if the advisor will just take those chapters at face value, this book will be worth its weight in gold in terms of reinvigorating our fundamental optimism. I’m not sure Pinker’s efforts to ground all this in classical Enlightenment thinking are either right or necessary to his argument, and his warmed-over Christopher Hitchens-style atheism gets old pretty quickly, but you just have to tune that stuff out. I didn’t find that particularly hard to do, and consider Enlightenment Now an absolute must-read for the Spartans.

FROM 2/18 ISSUE

I have, through each of its four editions since 2009, continuously expressed admiration in these pages for Deborah Jacobs’ book Estate Planning Smarts, which I’ve maintained is the most user-friendly (that is to say: advisor-friendly) book on the subject I’ve ever run across. As she has always promised she would when there are significant changes in regulation or law between editions, Ms. Jacobs recently posted a crystal-clear summary of the estate planning implications of the recently enacted tax legislation on the book’s website, estateplanningsmarts.com. Again, and not at all surprisingly: the best, most accessible thing of its kind I’ve seen.

FROM 8/17 ISSUE

I saw an early, brief and not terribly perceptive review of Scott Nations’ new book A History of the United States in Five Crashes: Stock Market Meltdowns That Defined a Nation, and was unimpressed.

I decided to read the book anyway, and am exceptionally glad I did. It’s not just one of my books of the year, it may be the book of the year, inasmuch as it’s an incredibly rich mine of market history for the informed advisor. The five events covered in the book are the crashes of 1907, 1929, 1987, 2008 and the 2010 Flash Crash. In each of the first four, Mr. Nations identifies contributing events and makes connections that even the most seasoned reader will find noteworthy. His meticulous second-by-second report of the 2010 event, and of the hubris that spawned it, is alone worth multiples of the price of the book.

Mr. Nations is the author of two previous technical books for options traders. He is not a natural writer of narrative, and his book suffers from an apparent total absence of editing. (Brace yourself, late in the book, for a 54-word sentence.) But the breadth of his scholarship and the depth of his knowledge of modern markets are first class, and more than carry the book forward. Five Crashes is a priceless resource for advisors.

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