The Tim Ferriss Show - Peter Mallouk — Exploring the Worlds of Investing, Assets, and Quality of Life - Podcast Notes

About The Author MMiller

HomeTim Ferriss ShowThe Tim Ferriss Show – Peter Mallouk — Exploring the Worlds of Investing, Assets, and Quality of Life

January 18, 2019

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Key Takeaways

- Peter isn't a fan of investing in gold, for quite a few reasons
- **"Probably some cryptocurrency out of these 2,000 or so, or however many thousands there are going to be in the future… probably one or maybe even a few of them will wind up being used, but the odds it's going to be Bitcoin are very, very low."**
  - "Any investment in Bitcoin is purely speculative"
- **More than 85% of people trading large stocks, which make up the huge majority of the market, that are professionals, under perform the index over long periods of time** (meaning, underperforming someone who invests in the S&P 500, and literally never touches the money again after that initial investment)
- **If you invest in the S&P 500 today, the odds that the market will be positive a year from now is ~75% (so 3 out 4 years, you'll turn a profit)**
  - Over 5 years, the market will run positive 90% of the time
  - Over 10 years, the market will run positive 98% of the time
  - If you invested in the S&P 500 the day before the 2008 market crash, you'd have doubled your money today
- Real estate is an overrated investment
- **The main point of investing is to improve your quality of life**
  - **So if you invest in things that create a ton of additional stress, and cause you to have trouble sleeping, even if they have a really high rate of return, it's a bad investment from a quality of life standpoint**
- No business is invincible – EVERY business eventually dies
- The financial adviser check list – Make sure they:
  - **Have to act in your best interest**
    - (In the United States, most financial advisers aren't always required by law to have your best interests at heart)
  - **Get paid the same, no matter what your investments are**
  - **Don't own/try to sell their own products**
- "A yes to something, is a no to something else"

Books Mentioned

- Peter is the co-author (with Tony Robbins) of **Unshakeable: Your Financial Freedom Playbook**
  - He's also the author of **The 5 Mistakes Every Investor Makes and How to Avoid Them: Getting Investing Right**
- Tim has also read Tony Robbins' other finance book – **Money Master the Game**
- Investment books that Peter recommends:
  - **Common Sense on Mutual Funds** by John Bogle
  - **The Intelligent Investor: A Book of Practical Counsel** by Benjamin Graham
- Books Peter has gifted the most:
  - **Awareness: The Perils and Opportunities of Reality** by Anthony de Mello
  - **How Full is Your Bucket?** by Tom Rath and Donald O. Clifton
  - **The Prophet** by Kahlil Gibran

Intro

- Peter Mallouk (@PeterMallouk) is the President of Creative Planning, one of the largest independent wealth management firms in America.
  - Peter is the co-author (with Tony Robbins) of Unshakeable: Your Financial Freedom Playbook
  - He's also the author of The 5 Mistakes Every Investor Makes and How to Avoid Them: Getting Investing Right

What does Peter think of investing in gold?

- He doesn't own any himself
- **"I'm not a fan of gold"**
  - **The value of gold is that someone will pay you more for it later – so it's speculative**
  - **It doesn't provide any continuous income**
  - **Gold has performed worse than every major asset class going all the way back to the Great Depression (besides cash)**
  - There's tons of volatility with gold as well
  - You also have to pay a higher tax on the gains with gold
- What's the most compelling argument that people use for owning gold?
  - Mainly that the economic system is a house of cards/a fraudulent or manipulative system
    - Peter agrees it's manipulative (that's the whole job of the Federal Reserve), but not so much a fraudulent system or a house of cards
  - They might think – the country has a lot of debt, someday the debt is going to have to be paid, which will lead to inflation, and currency will be worthless, and then people will be using gold as a store of value/currency

What about Bitcoin and crypto?

- **Blockchain is just a technology that allows cryptocurrency to work**
  - **There are several thousand cryptocurrencies, and Bitcoin only is one of them**

  - **Bitcoin was really the first breakout cryptocurrency**
- Peter brings up a good example:
  - Before Apple and the iPhone, there was Blackberry and Palm
  - **Back then, many people probably thought, "This technology is amazing, and you're an idiot if you think Blackberry/Palm isn't going to rule the world"**
    - **Well – Apple took the concept, and made it better**
  - Before Google, there was AOL, Exite etc. – which were all improved upon
- **Peter thinks the blockchain technology will change the way the world works, just like the internet did**
  - **"We'll move from centralized databases, to decentralized databases"**
- **"Probably some cryptocurrency out of these 2,000 or so, or however many thousands there's going to be in the future… probably one or maybe a few of them will wind up being used, but the odds it is going to be Bitcoin, is very, very low."**
  - **"Any investment in Bitcoin, is purely speculative"**
    - *Note from Podcast Notes – he doesn't really explain why this is the case, as opposed to other cyrptocurrencies*
  - "We're just betting that someone is going to pay more for it later"

What does Peter think his "superpowers" are?

- **"There are no superpowers, and I think no one has any public market investing superpowers"**
  - **But out of the public market – it's possible to develop a competitive advantage (like investing in private real estate)**
  - "Inside knowledge does not exist with the stock market. With the stock market, the bond market…there is nobody that has that insider knowledge."
    - Everyone shares the same information
  - **More than 85% of people trading large stocks, which make up the huge majority of the market, that are professionals, underperform the index over long periods of time** (meaning, underperforming someone who invests in the S&P 500, and literally never touches the money again after that initial investment)

Market Statistics

- **If you invest in the S&P 500 today, the odds that the market will be positive a year from now is ~75% (so 3 out of 4 years, you'll turn a profit)**
  - **Over 5 years, the market will run positive 90% if the time**
  - **Over 10 years, the market will run positive 98% of the time**
- If you invested in the S&P 500 the day before the 2008 market crash, you'd have doubled your money today

Money Managers vs. Wealth Managers

- **Money Managers**
  - **Believe they can beat the market with timing/stock picking (or stock trading)**

    - You might hire Money Manager A to buy large cap value stocks, Money Manager B to buy bonds, and Money Manager C to buy international small stocks
        - Or you could have them all work in the same space, and compare results over time
- **Wealth Managers**
    - **Decide with the client where to put stocks/bonds/international stocks**
    - They help with all of the portfolio allocation
    - They might also give advice on taxes, insurance, etc.
- Within these categories, there are Passive and Active Managers
    - **Active Managers**
        - **You're paying someone to try and beat a respective index** (an international manager would be trying to beat the international index, a large cap U.S. manager would be trying to beat the S&P 500 index)
    - **Passive Managers**
        - **This is where more money in the marketplace is moving**
        - **So instead of hiring someone to beat the S&P 500, you just buy the S&P 500**
        - The question switches from: "Which manager am I going to pick to trade these?" to "Which wealth manager am I going to hire to help me determine how much should be in large cap stocks in the first place vs. international stocks vs. bonds vs. real estate?"
- What does Peter do?
    - "We would be in the group where we're wealth managers looking at everything. We don't believe that if we pay someone to trade stocks, they'll do better than the S&P 500. So we're going to buy the index there, and we're going to buy it in several other spaces. We're going to pick our battles where we think we can create out performance, or what the industry calls 'alpha.'"

Alternative Asset Classes – What type of alternative options does Peter think are most viable?

- Let's first define them (in the public markets):
    - **You can buy a publicly traded stock (like Nike or Google)**
    - **You can lend money to corporations or a government (a bond)**
        - **If you loan money to the federal government, it's called a treasury**
        - **If you loan money to a county or a state, it's called a municipal bond**
        - **If you loan money to a strong corporation, it's called a corporate bond**
        - **If you loan money to a weak corporation, it's called a high yield, or a junk, bond**
    - **There's also publicly traded real estate**
- Each of the above has a private alternative (so they're not trading on the public markets)
    - You usually have to be an accredited investor (with $1MM+, to be able to access these)
    - So there's:
        - **Private equity (investing in private companies)**

        - **Private lending (lending money to private businesses)**
        - **Private real estate (buying apartment complexes or something similar)**
- The assumption is that the private versions will do better than the public versions
    - Part of this results from the "illiquidity premium" – the money is tied up for a while
        - If you put your money in a private real estate fund, you can't just exit the next day – the person you gave your money to is using it to buy buildings
        - Same with private equity and private lending
- **The private sector is the most common type of alternative investment**
    - But really anything that's not traded publicly is an alternative investment (so if you own an apartment building that you're renting out, for example)
- Other examples of alternative investments – There are funds that buy:
    - Life insurance policies – 3/4ths of people 70+ end up surrendering their life insurance policies
    - Music royalties

What does Peter think of real estate?

- It's a good investment, particularly if it's diversified
    - In the private side, expertise makes a BIG difference
- **"But in my experience, real estate is a tremendously overrated investment"**
    - Peter gives an example:
        - **Look at the Fortune 100 companies – "I'd rather own the company than a building that they rent"**
        - When many private equity firms buy companies, they're often very happy for the company to keep ownership of the building
            - The private equity firm will then pay them rent
            - **Why do this? – "They think the real estate will hurt their rate of return"**
    - **Real estate magnifies the wins and losses**...what does this mean?
        - If you buy a $100k building, with a $10k down payment, and a $90k loan (at low interest rates), and soon you sell the building for $110k, you made 100% of your money
        - BUT if you buy a $100k building, with a $10k down payment, and a $90k loan (at low interest rates), and you sell the building for $90k.... well you lost 100% of your investment
        - "You can magnify your wins and losses with anything, but people are very comfortable doing it with real estate"
            - For example – You can borrow $50k against a $100k portfolio, invest it, and now you'd have a $150k portfolio, with a $50k loan
                - "That's basically what you're doing, when you're using leverage in real estate"
    - **"Unless you are tremendously diversified, real estate is an investment where everything is okay, until it isn't okay"**
        - When it goes bad...it can go bad quickly
- **"It's a deceptive investment. You feel the security because you can see it and touch it. A lot of people get rich in it because of leverage,**

but we tend to ignore the people that go bankrupt, and we tend to not look at those parts of town that didn't turn out so well, that were pretty good parts of town 10-20 years earlier."

What about investing in art and collectibles?

- Peter thinks of something like collectible cars like coins – you're just counting on there being a marketplace that exists for it later on down the line
- **He doesn't think of art as a fad – there's always been a market for it**
- **BUT – Peter prefers to invest in things that produce income, like a duplex where you can collect rent**
- **"I like that kind of investment [art and collectibles] if you also have a passion that goes with it"**

The Similarities Between Art and Early Stage Tech Investing

- In a sense, **illiquidity** turns out to be a feature rather than a bug – especially for Tim
  - **Once you invest in something like art or an early stage tech company – it's done, there's no further decisions to be made, so there's a huge peace of mind benefit**
    - Perhaps then, something like art make sense for certain clients
- What does Peter think about this?
  - The things that derail people, are behavioral and they come from uncertainty
    - If you don't know what's going on, uncertainty leads to fear, and you're prone to do something stupid, like sell because it's so easy to sell
  - **Even the most educated/wealthiest people get scared during downturn**
  - More on the peace of mind benefit:
    - **For something like art, you're not constantly reminded of the ups and downs – so you're less likely to make long term mistakes**
    - So for some people…sure, there's benefits in this regard

What makes a good investment?

- A Great thought from Tim
  - **The main point of investing is to improve your quality of life**
    - **So if you invest in things that create a ton of additional stress, and cause you to have trouble sleeping, even if they have a really high rate of return, it's a bad investment from a quality of life standpoint**
- Peter:
  - **"Nothing is worth losing sleep. Money is just something that enables us to do other things that presumably we want to be happy. So there's no sense in being miserable investing it, so we can supposedly do something else."**
    - "Sleeping at night trumps everything. You have to be comfortable with what you're doing."

When is the risk of being out of the market greater than the risk of being in?

- **One might argue that – "It's not timing the market, but time in the market that makes the difference, so the time to get started is now"**
  - **One might also argue – "While it may not be possible to time the market, it is possible to mistime the market"**
- Say you have $1MM and enter the market, 1 of 3 things can happen:
  - The market can go up
  - It can go sideways, and you earn a few % – you get your dividends
    - *Dividend = money paid regularly*
  - The market can go down – the worst case scenario, but you keep collecting dividends, and the market eventually comes back
- BUT if instead you keep the $1MM in cash:
  - If the market drops, you're not getting dividends, and you'll probably want to stay in cash
  - If the market goes sideways – you're not collecting dividends
  - If the market goes up – you may suffer permanent loss of opportunity
    - If the DOW goes from 22k to 30k, the market may never pull back to that 22k, that entry point
- **"When you're on the sideline, you're risking the market getting away from you. When you're in, it can't get away from you."**

How is Peter structuring most of his client's portfolios?

- **Most have a diversified public portfolio, aimed to incrementally increase net worth, while searching for alpha (the term for beating the market) primarily through alternative investments**
  - "We're trying to perform better than they would on their own, by being extremely disciplined, placing tax trades, being aggressive buyers, and owning asset classes that mtach up with their needs"

What does diversification mean to Peter?

- **Trying to reduce dramatically, both company and industry risk**
  - Company risk – what it sounds like, trying to protect against a company going bust, having too much of an effect on your portfolio
  - Industry risk – industries can "go away sometimes, and never recover"
  - But there's also market risk – hedging against market fluctuations by owning other markets (like real estate, bonds etc.)
    - You can get even more diversified by going into the alternative investment space

How does Peter think people should approach investing?

- He advises you to think – **"I've got my day job….and I'm going to invest in a way that I'll do better than cash, but I'll never make what I'm making in my day job. However, I'm going to do better than cash and bonds by having a disciplined, diversified approach"**
- "The average American investor is investing for DECADES, and they should be thinking that way. Even the person who's retiring tomorrow, is investing for decades."

- **Your go to – diversified, multiple asset classes, leaning on a publicly traded portfolio**
  - "When you start to leave that, you are taking extra risks"

"Diversification is Misunderstood"

- One important thing Peter notes is that different asset classes are correlated:
  - **Real estate is about 85% correlated to stocks**
  - **U.S. markets are 80-90% correlated to international markets**
- Aim to remove what Peter terms "concentrated risk"
  - Like owning 5 apartment buildings on the same streets
  - Or owning 100 biotech stocks
- Aim to own asset classes that behave differently
  - Like bonds vs. U.S. markets vs. art vs. music royalties
  - **"The extent to which you have uncorrelated assets, dampens the ride, which makes it more likely you're going to get where you want to go"**
  - **"You're eliminating the chances of the grand slam when you do this, but you're also eliminating the chance of the strikeout, which is a very important thing for an investor"**

Any good investing books?

- Tim has read Unshakeable, and Money Master the Game
- Tim also brings up Peter's book – The 5 Mistakes Investors Make and How to Avoid Them
- Common Sense on Mutual Funds by John Bogle
  - Peter says the book compares the benefits of timing vs. not timing the market, stock picking vs. not stock picking, how to choose an allocation
  - "It was just so straight forward. I think it's a great read for someone trying to understand the basics."
- Peter also recommends The Intelligent Investor: A Book of Practical Counsel by Benjamin Graham

What's the most worthwhile investment Peter has ever made?

- **In college, Peter took ~$10k and set up a store that bought/sold CDs and cassette tapes with a few partners**
  - It did well, and they kept opening more stores (8-9 in total)
  - Peter bought out the partners, but soon.....Napster came along and they were done
    - "Within 6 months almost every location was closed, and all the CDs had been donated to a charity"
  - "The was the best investment and education I ever got, still to this day"
  - **"What I learned was a real world example of supply and demand, and how quick you can grow… and eventually, EVERY business dies."**
  - **"I also learned how quickly technology can change everything. I thought I was competing against the music store across the hall…and I was competing against something I didn't even know existed that was going to come in and destroy everything"**
  - **"I don't think for a second that any business in invincible"**

What's the biggest mistake that wealthy people make?

- **Many people have trouble spending their money after retiring**
  - It's very hard to stop doing the things (like being a little stingy) the day you retire, if it's gotten you so far
    - It's very hard to shift gears
- **The fact of the matter is, MANY people save all their lives for retirement, and then die right beforehand, never getting to fully enjoy it**
- Peter really tries to get his clients to understand that, say, if you have $3 million saved up for retirement, even if you spend $1 million on your own personal enjoyment, the inheritance ($3 million vs. $2 million) wouldn't make all that of a difference to their kids' lives – so go ahead and live it up
  - He really tries to get his clients to visualize what will happen to the money when they die, if they don't enjoy it themselves

What books has Peter gifted the most to other people?

- Awareness: The Perils and Opportunities of Reality by Anthony de Mello
  - *Note from Podcast Notes – This is definitely worth the read*
- How Full is Your Bucket? by Tom Rath and Donald O. Clifton
- The Prophet by Kahlil Gibran
  - Tim says this is a great book

Some Parting Investment Advice

- **In the United States, most financial advisers aren't always required by law to have your best interests at heart**
  - **"About 90% of fiduciary advisers in the U.S. do not have a fiduciary obligation to their clients. They're operating under a lower standard of the law, called the suitability standard."**
    - The general public does not know this
  - In places like Australia and the U.K. – this isn't the case
- So find out if your financial adviser is an independent adviser (they'd be working for an RIA – registered independent adviser) or if they're a broker (they work for a brokerage house, that makes money a lot of different ways on investments)
  - "That's not to say brokers are bad….but all things being equal, you'd want someone who has to act in your best interest all the time"
- **Also look out for advisers who get paid different ways on different investments**
  - For example – they may make more money if you buy a private equity fund as opposed to a stock fund
    - **"Compensation drives behavior"**
    - You don't want this
- "You definitely also don't want to be working with an adviser who has their own products to sell"
- **So the checklist, make sure your adviser:**
  - **Has to act in your best interest**
  - **Gets paid the same, no matter what your investments are**
  - **Doesn't own their own products**

How does Creative Planning make money?

- They charge a fee for managing investments

What advice would Peter, now 48, give to his 30-year-old self?

- **"A yes to something, is a no to something else"**

What would Peter's billboard say?

- **"Is it worth it?"**
  - The main premise: Forcing yourself to ask – **"Is what I'm doing right now, what I should be doing?"**
  - Socrates has said – **"Beware the bareness of a busy life"**
  - Peter is constantly examining his calendar and asking himself – "Should these things be on here?"

Wrapping Up

- **"We are living at the best time that anyone has ever lived"**
- The forces that drive markets:
  - Consumers buying things (close to a billion people are expected to come out of poverty in the next 10-20 years, all over the world)
  - Innovation & technology
- **"If you look at the forces that support the markets over the next 10, 20, 30 years…those have never been better. That doesn't mean there won't be setbacks and pullbacks. But if you can look past the negativity, the reality is, it's never been better than this."**

These notes were edited by [RoRoPa Editing Services]