Retirement Mistakes to Avoid
[Ep. 11]

Transcript

Note: The transcript of this podcast was generated using an automated transcription tool for informational purposes only, and may not reflect the exact wording or content discussed in the episode.

In our world, it's all about keep it simple, stupid. If Warren Buffett himself isn't doing it, he's not getting sector specific, he's not buying all into one stock with the majority of his portfolio, why are you doing it? If you go back 240 years,(...) keeping it simple, diversifying, sticking with quality, consistent investments is the best strategy to have.

(...)

(Upbeat Music)

(...)

Robert, we're live. All right. So let's discuss retirement mistakes. Okay. You know, we often see people doing amazing things when it comes to investing, and sometimes we, unfortunately, we see mistakes, so we're gonna dive into that, but kick us off, what are some big mistakes that people make? I would say one of the biggest mistakes that I see a lot of people make when it comes to retirement planning is not having a plan at all, right? You don't step out on a football field without a game plan, why are you gonna retire without a financial plan? And not just any financial plan, they're not all created equal, which you talked about in another podcast.

(...)

The other thing I would tell you is people get greedy, they get sector specific, they believe they can beat the market. Can't they? Well, let's put it this way.(...) Only 10% of fund managers out there today, mutual fund managers, beat the benchmark they're tracking. So there's no cheat mill, there's no easy way to get there. If Warren Buffett can't beat the market, why does somebody think that they can? A non-professional think that they can-- Like do-it-yourselfers? Yeah, like do-it-yourselfers. People can get lucky, right? We've talked about that in the past, but if some of the most, I'd say, educated and professional investors out there can't do it, why do you think you can? Leave it to the experts. If I have surgery, I'm not cutting myself open, right? Trust the experts. So if they're making mistakes, you mentioned sector specific, what other type of mistakes might they make?

(...)

Going after something because it sounds exciting. It sounds sexy.

(...)

I guess one of the things that comes to mind is the GOAT, Tom Brady, right? He put $30 million in FTX, and so many people got scammed by that. I think it was given to him for doing a commercial, but yeah, he had-- It could have been all I know is it was 30 million. Now for him, he's worth 330 million, maybe even more. That's just what pulled up when I did a search on it. So to him, that's about 10%.(...) But if most of our clients lose 10% of their assets in one investment, it could single-handedly destroy it. And when I see do-it-yourselfers, some of the common mistakes, is they get in one stock, or they get in one sector, and they think it's done so well, it can't go down.(...) Yeah, but if it did in the past, it might continue, right? Well, the future doesn't always repeat itself, right? I mean, you want to diversify. I've said this in a past podcast, that stupid is a bad word in my house, right? Because I have two little kids, Grayson and Beckham. But in our world, it's all about keep it simple, stupid.(...) If Warren Buffett himself isn't doing it, he's not getting sector-specific, he's not buying all into one stock with the majority of his portfolio, why are you doing it? If you go back 240 years,(...) keeping it simple, diversifying, sticking with quality, consistent investments, is the best strategy to have. Okay, what about emotions? I know sometimes that can be something that makes people make a poor decision, right? They get emotional about their investments. Yeah, okay, so let's look at that. WinStar Casino is an hour up the road. And what do they say? Don't go gambling, don't go to the casino with your rent money, you've heard that, right? Okay, so why would you gamble with your retirement money?(...) Why risk money you need to make money you don't need? If you've already won the game, why are you risking it? Just for the excitement, for the thrills? You know as well as I do in the 20 years we've been doing this, we've seen people that have already won the game, they let emotions play a part and they made mistakes, right? People are gonna tend to be more aggressive with their own investments than we would ever be.(...) So emotions play a huge part, because emotions, depending on where you're at in life, can make you make mistakes that you would normally not make.

(...)

Sometimes I feel like people can do the job in terms of managing their own money. We have, I think three, if not four, former financial advisers or something like that.(...) And we're able to, they retire and then they end up using us in retirement.(...) Why do you think they don't just go ahead and manage the money themselves? If they know how to do it, they did it for decade plus. Why are, does it make sense what I'm asking? Right, so in the nearly two decades, I've done this and over two decades you've done this, we've seen hundreds of DIYers come out.(...) Many of them, they'll do okay, maybe they break even. They usually underperform a money manager, but they like the excitement.(...) A number of them don't do so well. Only a handful that we've ever seen do a great job. And it comes with time commitment, it comes with sacrifice because investing is a full-time job. So I'm not saying that we haven't met people that have done a great job. If you're willing to sacrifice the time and it depends on what's important to you in life, then do it yourself. We're not gonna be a great fit for everybody. If you like it, continue to do it. And maybe their life changes, right? Priorities of what they wanna spend their time on, I guess. Well, you mentioned the former financial advisers that we have. They're smart enough to do the job themselves. So why are they using us? Why are they reaching out to advisers? They want different things back in their life. Their priorities have changed, whether it's spending time with their kids, grandkids. They're just done. They've done it for so long, they're just done. Other things could be health, right? Unfortunately, in this industry, you don't realize we deal with health issues like cancer as much as we do, but that could change. And again, it goes back to priorities. You know, in the last, I've been doing this over 20 years, in the last 10 years, it seems like, we've been working together and it seems like when we meet some of these do-it-yourselfers, some have bad performance, some have actually pretty good performance. And I think that might, I don't know, give them a false sense of confidence.(...) It seems like when people do the worst in terms of performing,(...) the market comes down because of COVID or inflation's up, and they might make an irrational move. But in general, why do you think, you know, people, I would say do-it-yourselfers in a more recent history, five, 10 years have done better than historical, it seems like, it feels like, right? It does, and I think it's very interesting in the timeframe you just gave. I mean, think of what just happened the past decade. The last decade was one of the best 10-year periods in the entire stock market. I mean, heck, my blind mother, who doesn't know anything about the stock market, could have thrown a dart at a stock, she'd probably agree with me. She could have asked me more than you, though, by the way.(...) Well, she could have thrown a dart at a stock board, hit a stock that she didn't know and made money the past decade. So you're right, you get that false sense of hope and security that the market's gonna continue in, that maybe you're a genius. I can tell you times where people in my family have come to me and said, "Hey, I've got this little extra money, "I wanna be a little bit more aggressive with it.” "Give me a stock." And I'm like, "No, I'm not gonna do that, "just stay diversified." And I remember one time to my brother-in-law, I gave him a stock pick, and I go, "Look, if it goes belly up, that's on you. "Realize what you're doing is aggressive." And of course, he invested in it. A month later, and he only had a little bit of money, it was a college, a couple thousand dollars, but of course, it went up like 500% in a month. And he goes, "Well, this is easy.”

(...)

"Anybody can do this, right?" No, beginner's luck, every dog finds a bone one day, but yeah, when somebody has an immediate success, it usually is a sign of disaster later on because they're gonna get emotions involved, they're gonna get overly cocky, and when the bottom falls out,

(...)

that's when true colors are gonna shine. Most people are drugging here after they-- Kind of like that buffet quote, right? "When a tide goes out, you know who's swimming naked." Well, and he also says, "Be greedy when others are fearful, and fearful when others are greedy." So this self-confidence, when the market goes down, they start doubting themselves, and they start making those emotional decisions come back, and they sell out while the market's down the opposite of what they should have done.

(...)

Talk to me about planning. I know planning is something you're a big fan of, as am I, but talk to me about why that's so important, and maybe do it yourselfers, or don't put as much emphasis on it, or importance on it. Talk to us about why is that important in the first place, and what should they maybe do different. If somebody's listening out there, let's say they never wanna work with a financial adviser. They never will, but give them the best advice possible so they don't harm themself.(...) Well, for one, you're right, they need to have a plan. Planning is a huge part of retirement success.(...) Not all financial plans are created equal, as we've said, many, many times, and done an entire podcast on it. So if they're never gonna work with an adviser, they need to find some of the top software out there that can incorporate all the missing parts, all the shortfalls that they're not thinking of, right? So, yeah, they really need to do the research, and they need to be dedicated to whatever philosophy, whatever plan they have, they need to stick with it, and they need to have a proven track record on it.(...) Okay.

(...)

Trying to think of anything, any other low-hanging fruit on a plan that they can screw up. Is there, for example, a rule of thumb portfolio that they can just set it and forget it, invest their portfolio? So, couple shortfalls, and we can list a number of them, but one of them, of course, not having a plan, the next one is not realizing what you should spend, or over-expending, or over-spending in retirement. You mentioned rule of thumb. There is a rule of thumb out there, and I know I speak for you as well, that we are not big rule of thumb people. The rule of thumb out there today for retirement spending is 70% of your current income. Like, if you're working, say, and let's just make this up, you're making $100,000 today a year in income. Well, the rule of thumb for retirement is that you do 70% of that, so $70,000. Gross or net taxes? Net, in your pocket. So, 70% of that, so $70,000 is the rule of thumb of what you need to live on. Now, you know as well as I do, that doesn't always work out. In fact, we know clients that maybe they traveled

(...)

their entire working career, so when they retire,(...) it's just all about spending time with the family. Travel's not a big deal to them. So they can spend a lot less than what they were spending during their working years. However, the flip side of that coin is there are many people that we have as clients that spend more per year because they wanna travel, they wanna do extravagant things, they wanna go enjoy life because of a 40, 50 year working career and all the sacrifices they made to get there, they wanna go spend more. So they may have been making $100,000, but now they wanna spend $150,000 net a year in retirement. So that's definitely a huge part. You have to know what's important to you and have a plan that can compensate for that. Other things would be inflation. Inflation is a huge piece of the puzzle. There's a default inflation rate. I was about to ask you, so maybe you're about to tell us the default, what should this do it yourselfer or use for inflation?

(...)

What do most people use, what would you recommend to use? I'm sure other people could make an argument for inflation, other advisers out there, but we would rather be better safe than sorry.

(...)

So let's look at past. The past 40 years, the default inflation rate for essential living expenses is 2.2%. If you look at an average of different sectors of the market. Even with the 9%(...) year ago? Even with the 9% a year ago. So if you go back to the late 80s where you had double digit inflation, the average still came out to 2.2. But that's for essential living expenses. There are other sectors of the market that are much higher, but what's interesting about that is when we see financial plans from other firms, they're not even using 2.2%, right? You would think because of what's happened with the 9% that they're using greater than that, no.(...) Many people use 2%, which okay. They wanna make that argument. The Fed's target rate is 2%. It has been for quite some time. I don't think the Fed's gonna hit 2%,

(...)

at least not in the near future, maybe one day they can. They're under three right now, but you're right. Right, currently. But if we were to look at the last five year average, it's probably not under three. When we look at 40 years, I think it'll be less than three, maybe less than 2.5, maybe it's closer to that 2.2, but it's probably not gonna be at 2%.(...) And then you know, we've seen plans that are 1.5%.

(...)

We've even seen some plans built by other firms at 0%,(...) meaning there was no inflation. Their income, their need for income was not increasing at all with life. And so that could be a huge pitfall. Now, you know that we use an above average rate of inflation. We use 3% on essential living expenses, but then we separate out other sectors that have much higher inflation rates so that we can accurately depict what retirement's gonna look like for them.(...) Now, I know to your point, in our plan, we have an inflation rate for education, for healthcare, essential living expenses, but let's say somebody's a do-it-yourselfer out there, they don't have the software to break it down like that.(...) What, and they need to just, they're doing it on an Excel spreadsheet. Can you give them just a cheat sheet? What's the inflation should they use? If they wanna incorporate healthcare, which healthcare, default inflation has a 5.10% inflation rate. For healthcare? For healthcare. Okay. And the reason this is a big one is because healthcare is the biggest expense in retirement people are not prepared for. So if you lump healthcare into your essential living expenses, you're setting it up for failure. So I've actually done the calculation. If you wanted to use our 3% inflation, plus the 5.10% inflation for healthcare and the amount that you would spend as it adjusts, depending on your age, right, because you'll spend a little bit more before the age of 65, a little less for supplemental care after 65, then the average inflation rate for just those two components together come out to about 3.31%(...) inflation. So if you have a financial plan that's using 2.2,(...) then when you get 20, 30 years down the road, you're not gonna be too happy. So 3.3, is that what we're going with? 3.31,(...) if you were not working with a professional and you wanted your best chance for success, honestly, if it were me, I'd probably use 3.5 just to get myself a little cushion. Okay, okay, but not 2.25 on the essential, makes sense. Right.

(...)

What about other shortfalls in a financial plan that somebody might make? Is there anything else we're missing out? There is, I mean,(...) it depends on what's important to you. Legacy and estate planning, most financial advisers or wealth managers don't talk about it. There's a select few of us that do because it's important with the type of clients we work with.(...) But then tax strategies, understanding tax laws and having a plan sophisticated enough to change and update as tax laws change. Healthcare, as we just talked about, social security, how and when to take it, Roth conversions, all of these things, if you're not calculated right, you could either destroy your retirement plan or leave a ton of money on the table, regardless.

(...)

Okay, and as we wrap up, as we conclude this episode on do-it-yourselfers, we encompassed a ton of different information. So I'm about to ask you kind of a tough question, but to summarize it. So talking do-it-yourselfer, they're very limited on time.(...) They don't wanna work with an adviser. Can you summarize a couple of the key takeaways? I know we just talked about inflation and some other low hanging fruit, but what are two or three last takeaways? Or do you have a story you wanna share of that might illustrate of how somebody could hurt themselves and how to avoid that?

(...)

Oh, wow, okay, that was a lot to unfold.

(...)

I would say, you mentioned a do-it-yourselfer that doesn't have a lot of time,(...) but doesn't wanna work with an adviser. Well, that's a landmine. If you're gonna do it yourself, you need time. That's what-- True, but I don't want somebody to listen to us and think, oh, the answer is we have to work with an adviser, right? No, like we said earlier, if you love it and you have a passion for it, and your priorities are that, then do it. Sometimes we meet with people and we say, hey, you like doing it, keep doing it. Not everybody has to have an adviser.

(...)

Other shortfalls, other takeaways would be don't get greedy and don't have some false sense of security that you know better than the experts. Okay, you told me to think of a story. I got one for you. It's a friend of mine. We happen to be in each other's wedding,(...) happens to be a client of ours, since I can't say his name, we'll call him CT,(...) right? CT, well-- I think I know who this is. You probably do, but they won't. Okay, so CT, we're good friends. It comes over to the house, him and his wife come over to the house on the weekends. We enjoy each other's time, but we're friends. We've been friends for a very long time.

(...)

What do guys like to do to other guys when it comes to money and competition? Maybe brag about performance. Brag, you nail on the head. Brag, pick on each other. So we've always had his serious money, right? The money he needs for retirement. And he's made the comment over the past. So you've been investing his serious money? Serious money. Okay. But he likes to brag about his play account, right, his play account. And for six years, we were just managing his serious money while he had his play account. He'd come over to the house, he'd always tell me about the good times. Oh, my portfolio went 40%, or this investment just did 60%.(...) It had the ups, it had the downs, it was all over the place. And he calls me up one day about two years ago and he goes, "Hey, Robert." I go, "What?" He goes, "I wanna talk about the investments." I go, "Oh, great, here we go. All right, we're gonna take jabs at each other." And we didn't have a drink yet, we were playing some cornhole, nothing.

(...)

So I feel like we're gonna jab at each other. And he goes, "I wanna move my play account over to you." And he goes, "Wait a minute. You've been bragging for the past six years, six years about how well you were doing." And this guy's smart. He's a doctor, very educated, very IT-minded, has an Excel spreadsheet for everything.

(...)

And he's not a very humble person. So the fact that he humbly goes, "I thought I did have y'all beat all the good times,

(...)

the very few bad times I thought I had you beat because y'all's is boring, it's slow and steady. You always talk about keep it simple. So I knew I had you beat, but when I put everything into a spreadsheet, y'all killed me. And I couldn't believe it. So why am I gonna continue to deal with the stress, the time, and not make the same returns you're already making in my portfolio?" So that comes to that, that greedier, that false sense of security.

(...)

Financial advisers or wealth managers, they don't shine in the good times like we've had the past decade. They shine in the down markets. And it was the down markets that we've had in the past eight years that he's been a client. It's those down markets that has put us ahead. Because if you have a million dollars(…) and you lose 50%, you're at half a million. If you make 50% the next year, that's a great return, but you made it on half a million. So you're at 750,000, so you're still 25% in the hole.(…) So sometimes keeping it simple stupid is the best route to go. So don't get greedy, have a plan, stick with it. And yeah, I think that's the best takeaways that somebody could have. Makes sense. Yeah, I mean, if the stock market is gonna go up 10 to 12% every single year, to be honest, we--(…) We wouldn’t have a job. Exactly, our industry would not exist. I think, to your point, the negative years,

(…)

not only to minimize the losses to some extent, but how it's diversified, but just having that communication with a client of not harming themself, which in this day and age, with all the technology out there, resources, books, you'd think everybody kind of gets that, but people don't, right? People are always, you're correct, and people are always-- In general. Some people do, but-- Right.

(…)

Especially DIYers, they're always looking for that next exciting adrenaline pumping investment, when all you gotta do, really, is keep it simple and go focus on the things that matter in life. Don't worry about the investments, leave that up to the professionals. Awesome, well, thanks for sharing that. Let me look at the mailbag for us. You're being asked.(…) A lot of our listeners out there don't know that you have an identical twin sister. So please tell us, how's that possible? So I think most of our viewers are smart enough to know that if I have an identical twin sister, that it's medically impossible for us to be identical. So, yeah.

(…)

Hey, I didn't put the question in there. Oh wait, that was the mailbag question. That was a mailbag question. Okay, well-- Second one that Jordan's asking, there's no last name, and Jordan could be a man or woman, I'm not certain, but they are asking, I just started a new job. How should I handle my employer's retirement plan and benefits? Well, do it. That's the first thing, and that's the simple answer, is do it, especially if they have a match, right? So earlier today, we were talking about a salary of $100,000, so let's just keep with that to make the math easy. So if your company has a match, and let's say they contribute or they match you 100% of the first 6% you put in. So that means they're gonna match you 6%.(...) On $100,000, that's $6,000. I mean, the way I look at it, that's part of your pay. Yeah, free money. That's free money, right? You can't give us $6,000 and us duplicate or double it overnight, but that's what your 401(k) is doing, so take that match, it's a part of your salary. Then dig into different options that you have. Not every company, but if you're one of the fortunate few that have a 401(k) that offers a Roth 401(k) that has no income limitations, which we can do an episode on that and Roth contributions, has no income limitations, then do it. Especially the younger you are, so you can get that compounding interest, that tax-free growth over time. So I appreciate that. Okay, what about the old 401(k)? That's the second part of the question that they're asking. What do they do with the old 401(k)? Well, of course, as wealth managers, we would say move it over to us. We'll roll it into an IRA so it's not a taxable event. There's no penalties, there's no fees, there's nothing. However,(...) the answer wealth managers don't like that much is some firms will allow you to move an old 401(k) into your new 401(k). That is an option.(...) The reason I would say that that's not the best option is because like many 401(k)s, your options of investments are limited. You usually have 20, 30 mutual funds to pick from.(...) If you're working, if your adviser is a fee-only fiduciary, that means that they have to have open architecture to any fiduciary investment out there today. So they're gonna have thousands, hundreds of thousands of investments and not just 20 to 30 mutual funds. So I would roll it over into an IRA with your adviser. Awesome, thank you so much, Robert. No, my pleasure, thank you. Thank you everybody today for listening. We look forward to talking to you next time. (Upbeat Music) professional designations reflect past achievements and do not guarantee future performance. For more information about services, fees, and disclosures, visit: https://www.gdswealth.com.