

Speaker 1: This is Financial Detox, helping you retire with confidence, featuring Jason Labrum, certified financial planner and founder of IDA Wealth, Intelligence Driven Advisors. For over 20 years, Jason has shown people how to steer clear of toxic advice, achieve financial peace of mind, and manage their wealth for maximum impact. Join Jason and co-host Alex Klingensmith, as they simplify the complex, share industry secrets and provide proven strategies designed to take you from financial insecurity to financial independence. This is Financial Detox.

Jason Labrum: Good afternoon. It's Jason Labrum, and this is Financial Detox. I'm in the studio with Alex Klingensmith, and we have a great show for you this week. Alex, why don't you let us know what the show's all about?

Alex K: Thanks, Jason. So our firm, Intelligence Driven Advisors, that's our wealth and management firm, right?

Jason Labrum: Right. We're the financial detox team at. There we go.

Alex K: Okay. And so the financial detox, that whole message, that whole purpose, I believe for financial detox is to act as a consumer advocate, right? To simplify and detoxify all this. And so we participate. The wealth management firm participates in a nationwide study every year, sometimes twice a year actually. And it's a client survey. It's one of those annoying surveys you get. But ours is not annoying. I think it's more and we send it to all of our clients. So it's not something you'd get if you weren't a client.

Alex K: And we're asking quite a few questions around what do you like about your experience with us and what do you not like and how can we improve and continue to pursue better for you. And so what we found is that there's a topic across the nation, 23000 person sample size that do have advisors. These people do have advisors. They have, I believe for the most part fee only full-time fiduciary advisors. Probably a pretty close to accurate statement, which is what we are, full-time fiduciary fee only.

Alex K: And so we feel it's near and dear to us. And so what they, one of the topics that was the most common amongst this entire survey study was the topic of performance.

Jason Labrum: So today we're going to talk about this study and we're going to talk about performance. Because performance does matter. And we've also found that there are several situations where clients come into our firm have said that their advisors completely and totally avoid the topic of performance. And in fact, here's a really good example.

Jason Labrum: So my in-laws, all right, I'm manage money for my in laws, imagine that.

Alex K: And how's that going for you so far?

Jason Labrum: Great. It's great. They're awesome.

Alex K: I wonder what their surveys said. No, I'm just-

Jason Labrum: Yeah, we should ask. But you know, it was interesting because we talk so much about their financial plan and budgeting and all these kinds of things, and my father-in-law came to me and said, "Hey, I want to have a discussion about performance." He literally said it.

Alex K: Like 23000 other people.

Jason Labrum: Like 23000 other surveyed people said they want to have a discussion about performance. And I went, "Well, we always talk about performance." He goes, "No, but I really want to get into the gritty. Why are we performing the way we are? Is it good? Is it bad or what are we comparing it to?"

Alex K: Was this called last week?

Jason Labrum: It was a before the-

Alex K: The recent volatility.

Jason Labrum: Before last week's 700 point decline. It was great. And I said, "Well, of course we can and we should." And so we spent a good more than half of our conversation talking about it and it was refreshing for him. Because most of the time we are talking about the financial plan. So it was refreshing for him to get back into is my money working and and basically the summary as it was, are you doing a good job for me?

Alex K: Am I making money?

Jason Labrum: Yeah. Are you making money or relative to the market and what's out there and why am I doing well? So it was a great question and I think a great topic for the show. So again, we're going to talk about the truth about performance, why performance matters. I think you're going to come out of this learning what is the right way to analyze your performance? Because there is a right way to look at performance and a wrong way.

Jason Labrum: And you're going to come out with how, how to properly compare to what type of benchmark or market do you compare your performance and also what to do if you're not meeting or exceeding your expectations from a performance standpoint.

Alex K: That sounds like a good show.

Jason Labrum: It's going to be a cool show.

Alex K: I want to hear what we have to say.

Jason Labrum: I do, too. What do we have to say? So here we go. So really here's one of the things that I think as we start peeling back the layers to this onion. One of the things that I think is the most important in a bullet point on our sheet here is, is what is the market, and we talk about this a lot, but like what is the market and are you performing versus the market? Is that even the right question? Because I think a financially toxic thought that most people have is that the S&P 500 or the Dow Jones or the NASDAQ or a combination of those three is the market, and it's not.

Jason Labrum: It's a small piece of, or it's a small segment of the market, but it is not the market. So if you're comparing your portfolio to the Dow, the S&P or the NASDAQ, you should hopefully you have a portfolio that is representative of those types of holdings.

Alex K: We'll pause. Let's pause there for one minute. Because what if your portfolio is literally a couple index funds that are the Dow and the S&P and the NASDAQ and that's all you have.

Jason Labrum: You should compare right to that. That'd be a perfect comparison.

Alex K: So point one is that would be an apples to apples comparison. Point two though, is that a properly diversified portfolio, even if you're supposed to be 100% stocks?

Jason Labrum: Yeah. Well, we would argue that no, having a us only large capital only portfolio would leave a lot of potential returns off the table for you. As you look back, and I don't have my matrix book in front of me, but as you look back, if you take from 1926 or 1928 the S&P 500 until last year, \$1 turned into something like 7000 if you take [crosstalk 00:06:01].

Jason Labrum: Yeah. In the S&P 500 [crosstalk 00:06:04] that's that class in a large cap US growth. If you take the same dollar and invested it in small cap value stocks. So small companies that are more value tilted, that \$1 turned into \$77000 not seven.

Alex K: That's like a how many years study? What timeframe?

Jason Labrum: Timeframe is from 1928 until 2018.

Alex K: You know my favorite little excerpt of that timeframe that we also show in the same kind of a education piece is the lost decade, right? And you have a great story of that one because that's when you started in the business and I loved the numbers. When you go the same exact asset class comparison like US only versus global. So that's worth mentioning.

Jason Labrum: If you take an S&P 500 portfolio during the last decade. It's down nine percent over a 10-year period.

Alex K: Down nine percent.

Jason Labrum: Down nine.

Alex K: What are the years on that one? The lost decade?

Jason Labrum: It started in 2008 till, no wait, I'm sorry. It's 2000 to 2008.

Alex K: Yeah, so you remember that time, right? Then you start in the business around then?

Jason Labrum: Yeah. It was right when I was starting, so you had a 10-year period where if you are in US stocks and only US stocks, you are down 10% over a 10 year period. That's tough to withstand.

Alex K: How did you survive that personally?

Jason Labrum: It was an interesting time to try and build a business. Fortunately, I was globally diversified and whatnot, but if you look at a globally diversified portfolio and by that we mean you not only have us stocks, but you have international stocks and emerging market stocks in large and mid and small caps, all sizes of companies.

Alex K: Value and growth.

Jason Labrum: Value and growth. If you look at the same time your portfolio was up 60% not down nine. It was actually up 60%.

Alex K: How hard is it to do to properly diversify across those dimensions of those measurable dimensions of returns that we just throw out there real quick? I mean is that a hard thing for someone to do?

Jason Labrum: Maybe an individual to do it and then have a discipline wrapped around it? It can be tricky, right? It doesn't take a master's degree to figure out how to get diversification and allocation. What's hard is wrapping that altogether and then maintaining it and staying put in that philosophy. So we'll talk a lot more about that. The show today, financial detox, it's all about performance.

Jason Labrum: If you don't know what your performance is and you would like help determining what it is, we can help you. We have daily reconciled performance for our clients. Our clients can know what their performance is up to the day, any day of the year, any day of the week. And we can also help you if your

advisor's not showing you that information. So we invite you to give us a call at (877) 707-8889 that's (877) 707-8889 it's financial detox. We'll be right back.

Jason Labrum: Hey, welcome back. It's financial detox. I'm Jason labrum with Alex Klingensmith, your host of financial detox where the intelligence are where the financial detox team at Intelligence Driven Advisors. Happy to be with you this week and we're talking about performance. Great time to talk about it too, Alex. Good show topic because we've had some radical volatility last week. Volatility is normal. We did a presentation and had some information that's out on our website available for you.

Jason Labrum: If you go to financialdetox.com or if you go to idawealth.com either one of those work, but you can get some of our information on volatility and we took our clients through a few slides and presentations and just historic evidence-

Alex K: We're on video.

Jason Labrum: We are on video. To put it into context because we start to think after long periods of steady in increases in the market that maybe that's supposed to be normal and it's just not. Volatility is in fact normal. And markets move from peak to trough on average of about 14% every single year. So at some point during the average year, the markets are down 14% from where they were at some point during that same year.

Jason Labrum: That's crazy. So when we moved two or three percent and people totally freak out maybe they shouldn't be if they take it in the right context. But anyway, we're here to help you understand this. We're here to help you get detoxified. So you think clearly, and we're not talking about the health detox obviously, although financial detox is a great play upon that. But the point is we have toxic financial information that is poured onto us every single day, whether it's from your phone, the news, a whole bunch of different sources, chatting with friends.

Jason Labrum: And what we're trying to do is break that down and get you to focus on the things that are the truth, that are transparent, that are accurate, that are evidenced, that are data driven. And so detoxify your thinking with regards to your personal finances and help you make better decisions.

Alex K: One of the things you just said. I want to validate everybody listening, right? And ourselves included in this because there's this 23000 person investor survey-

Jason Labrum: Which we're talking a little bit about today. Right.

Alex K: So there's a question that was asked. It says, where else do you go for advice or ideas about your savings and investments? So where else meaning other than your advisor, right? And so 35% of these, the sample size is 23000 and these are people that have arguably some of the best advisors in the country by structure,

by how they operate as fiduciary is what I mean, but I can't speak to their performance or their personalities.

Alex K: But so 35% of these people have these clients that have advisors. So they only go to their advisor. That's only one third. The other two-thirds openly admitted they have other places. And I'm saying this, it made me think about it while you were talking because the toxic information of the media, which we talk about a lot, but-

Jason Labrum: And we say we're classic because we're on the media and we're talking about there's toxic information in the media. It's pretty funny.

Alex K: But better defined so you know what we're thinking or what at least I can't. I don't know what you're thinking, but I know what I'm thinking when I talk about this, I talk about it in a way because we have clients that work for the media and I want to be respectful of their professions in their passions and their goals. They love what they do and they're very good at it.

Alex K: The people that work for the media, you can hear me right now saying this, this is what I feel. Your job is to gather information and disseminate it to masses of people and to sell that idea as something that is important right now. And so that's really exciting. Investing isn't maybe so exciting when it's done in a prudent fashion and also it's very personal because a personal financial plan is just that.

Alex K: So advice given by the media is not going to help you take action on your personal financial situation. So the media is doing its job, we're doing our job. We can all be in the same world together and coexist.

Jason Labrum: It is because if you want to gather the big picture information, the media is going to give you all great. If you turn on CNBC or Fox Business News, you're going to see points like, "Hey, invest now. This is the best time to be invested." You're going to see, get out of the market now. It's time to get out of the market. There's-

Alex K: 33% openly admitted that have advisers, the good kind, I say good kind. That's compliance with that word, but the fiduciary kind. 33% admitted on the survey they get advice from the media, so not just their advisor. 35% said they do their own research online, which I like that more. That's how I am. I don't watch the news.

Jason Labrum: Yeah, the problem is there's a cognitive bias that exists when you research on the Internet.

Alex K: What are you talking about? I only want to see what I want to see.

Jason Labrum: Right. And so what happens is when you search for a particular topic, you can find anything. All right? So you could go online and say, is Diet Coke really bad for you? And you could find articles saying, no, it's not that bad. And then if you wanted to find articles that said it's terrible, you could find articles so you can form your own statistics, you can gather your data in whatever fashion you want and have a total cognitive bias. So I don't think, unfortunately, searching on the Internet, it used to be that there was so much need for information.

Jason Labrum: You could go to certain people, great advisors, great brokers back at the time, and you could read a great research report and you would get information. Nowadays, you have so much information, it's almost distracting and it's polluting. It's AKA, it's toxic and so you have to filter that information and find out what is actually useful. Who wrote this? Why did they write it? What credibility do they have?

Alex K: How does it pertain to me right now?

Jason Labrum: Yeah. How does it actually pertain to me and me achieving my purpose and goals?

Alex K: I think it's cool though that the people listening should know that they're not alone in doing this, right? So that always makes me feel better when I'm like, "Am I the only person that does this?"

Jason Labrum: You're the only one.

Alex K: Of only 35%, maybe in some situations, but if 35% of people only go to their advisor, the other people are openly admitting the other 65% are saying, I actually go. The question was, where else do you go for advice or ideas about your savings and investments? I think it's nice to know that other people are doing this. What do you do with that information?

Alex K: Well, this is the next question that I think is a great follow-up question in the survey. When you do connect with your advisor, right? What is the percentage of time that you want to spend in each of the following areas? And so the areas are on my investments, number one. Number two, current market and economic conditions. Number three, progress towards my goals. And number four is personal non-financial matters. And guess what number one was what?

Jason Labrum: What?

Alex K: Performance.

Jason Labrum: My investments.

Alex K: Performance.

Jason Labrum: So let's talk about your performance then. Let's get to these actionable items, right?

Alex K: 41% of the time in our client reviews, they want to talk about performance. People are saying they want to do this. How much of the time do you think we're actually, we collectively, as an advisor or advisor community, how much of that meeting do you think you spend on that topic?

Jason Labrum: Some advisors spend 100% and that's a problem. And some advisors avoid it altogether and that's a problem. But I think again, given that we're trying to help our listeners and detoxify the general public and investors and individuals with how to think about performance. So let's get to the what matters, right? What matters? Why do they care?

Alex K: All right.

Jason Labrum: Why do they care about or what's in it for them? What should they do? What actions?

Alex K: Progress toward their goals, which was only 29% versus the [crosstalk 00:15:47].

Jason Labrum: What is investment performance, right? So when you calculate performance, there's one thing to be, I think that comes up all the time, surprisingly said to me. It's clients, I'll give them their performance, we'll look at it on the screen together, we'll look at it and they always ask what about the money I've taken out? I respond by saying "Any good performance reporting would be net of contributions and withdrawals."

Jason Labrum: Performance reporting is taking the original dollar you had invested minus any contributions, minus any withdrawals. You got to net those out because additions to your portfolio Canton should not count as performance or gains.

Alex K: Excluded, yeah.

Jason Labrum: Just like withdrawals from your portfolio should not count as losses and your performance should also be as we calculate it, net of our fees. So if we charge to help manage money, you should know what your performance is. I believe net of our fee because our performance gross of your fee is not really performance, right? I mean our performance gross of your fee is a number, then we take our fee out. So I think that advisors should be representing their performance net after their fee and expense, as well.

Jason Labrum: So we've got to keep going on. It's financial detox. I'm Jason Labrum, in studio with-

Alex K: Alex Klingensmith.

Jason Labrum: There you go. We're talking about performance. What's my name? What's my name? Don't wear it out. We're talking about the truth about performance and we're trying to help you decipher what is performance, how does it matter? First of all, Alex has cited a study. Basically performance is important. You think it's important. If you're driving down the road right now and you're listening to our show, or you're wherever you are, it is important to you because we've sampled 23000 people and they say it's important and it should be.

Jason Labrum: We're agreeing with that premise that it should be important because performance does matter. And what's amazing to me is when you look at Alex, the performance and you look at one or two or three percent difference a year in performance has a dramatic effect over the long-term on somebody's results. So performance does matter. And whether or not you as an investor make mistakes, behavioral blunders or your advisor makes behavioral blunders and detracts from your performance by just a little bit, it's going to have a profound effect on your ability to create and or preserve wealth. It does matter.

Jason Labrum: You should be talking about it with your advisor and/or you should be looking at your performance if you're doing this on your own. Number one, we talked about what performance is. We talked about that a little bit last segment, right?

Alex K: Yep.

Jason Labrum: And it's basically finding out the net after expenses, after contributions after withdrawals. How much did your investments change in value-

Alex K: Analyzed. [crosstalk 00:18:22]. You were going to say that, but-

Jason Labrum: But you also have to take into account the dividends and the interest because that's return, right? One of the big mistakes that people make as they'll look at, let's say a fixed income investment, a bond investment, and they'll look at the amount they originally invested and five years later they look at the amount they haven't and it's the same. And they're like, "This thing's terrible. I've never made money."

Jason Labrum: Because they're looking at the maybe capital gains or loss statement and the capital gain or loss on the premium, the original amount, the principal amount invested hasn't changed. However, the whole time you've been receiving interest and the return is actually your interest. Because you don't buy a fixed income investment at bond investment to go up in value.

Jason Labrum: Most of the time, just generally speaking, you buy it for the interest, but I've had multiple clients, I've had multiple advisors look at a particular position and say, "Oh man, this thing's terrible. Why would we own this?" And I'm like, "Well, the performance on it has been phenomenal." And they say, "No, look at my gain loss. I'm looking right here at my gain loss." I mean, I've had countless clients do

that. So really important that you don't mistake capital gains gain or loss for performance reporting.

Jason Labrum: It is not performance reporting. All it's showing you is the original investment and today's investment doesn't take into account [crosstalk 00:19:41].

Alex K: When you look at your statements, your monthly statements from your custodian, Schwab, Fidelity or whoever-

Jason Labrum: If you look at gain loss that is not performance reporting.

Alex K: When you look at the statement period, all you're looking at is activity. You're not looking at performance, right? I mean there are sometimes-

Jason Labrum: Some statements will show the beginning value, dividends, interest, increase in value of investments, decrease in value of investments. There you're getting into some actual performance reporting, but it's really important. There's two types, too. There's time weighted, there's dollar weighted. You need to understand what performance reporting you're looking at because this is an area that is complex to get accurate performance reporting and it is often very confusing for clients. That's all the time we can spend on it. Let's keep going.

Jason Labrum: I think here's a big one that I think is worth talking about is we have a couple more minutes here is, what is the right way to define the performance and compare it? What is the benchmark?

Alex K: Not the Dow when you said 700 points at the beginning of the show.

Jason Labrum: If I have a portfolio that a lot of 55, 65, 70-year-old clients have that maybe has 60% equities and 40% bonds. You should not compare that portfolio to the S&P 500. Because it's not even close to the same thing. It has 40% of the portfolios in bonds, which is a completely different asset class.

Alex K: It's not supposed to be the same thing.

Jason Labrum: It's not supposed to be. It's intentionally designed that way to have lower volatility because you don't need the rate of return, whatever the reason being, but it's intentionally designed to not be like that. So that is like getting behind the wheel of a Ford Focus and your buddies behind the wheel of a Bugatti and you're going race and see which one's faster and then saying, "Well, the Ford Focus is terrible."

Jason Labrum: Well, no, the Ford Focus is a great value for a vehicle that you want to get around town in and have good gas mileage and so on and so forth. So it's a terrible comparison to compare your portfolio against the wrong benchmark. How do you know what's the right benchmark? Well, first of all, you need to

know what's your allocation. How is my money allocated? And the way we like to do it is we take the allocation that the client has an every single asset class and then we compare to the biggest, broadest, most substantial benchmark that represents or tracks as closely to each of those asset classes.

Jason Labrum: And it's called a customized blended index. So it's a customized blended index that matches the client's allocation with all the pieces of the market, not just the US large cap market, S&P, Dow and NASDAQ. All pieces of the market put together to match our portfolio. And now we can say, "How are we doing versus the benchmark?" Now we have an accurate way to perform and at to compare performance and say, "Are we providing value to this client? Are we helping them extract the returns that are available in the marketplace? Are we helping them pull those out and put those in their pocket?"

Jason Labrum: Yeah, I think you gotta take us up on number one, our portfolio challenge. We'll help you dissect the performance you've had in your portfolio. Particularly, if we get the last 12 months or 24 months statements, we can show you given all the changes or changes that have happened in your portfolio how you have actually performed, so we can do that for you. We'll compare it to a portfolio that we would build for you. Give you an outline of a financial plan and you're going to have some clarity and probably financial peace of mind that you have not had in a long time.

Jason Labrum: That's what the financial detox team at Intelligence Driven Advisors is all about. It's [financialdetox.com](http://financialdetox.com). We invite you to check us out and learn more. We'll be here every single week on KCBQ the answer AM 1170 or FM 96.1 Saturdays at 1:30. Thanks for listening. As always, it's financial detox. I'm Jason Labrum.

Alex K: And Alex Klingensmith.

Jason Labrum: And we will catch you next week. That's [financialdetox.com](http://financialdetox.com).

Speaker 1: To learn more about financial detox and to get access to today's show notes, transcript and resources, visit [financialdetox.com](http://financialdetox.com). Call Jason and the team at Intelligence Driven Advisors. If you're ready for financial detox and a better tomorrow, call (877) 707-8889 get answers to your questions. That's (877) 707-8889.

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