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.

Speaker 1: 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 cohost 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: Hello and welcome to Financial Detox. I'm Jason Labrum, your host in studio with Alex Klingensmith and we are excited to be here with you this week. We have another fresh show with brand new content just like almost every single week we bring to you. You can check out our shows, you want to hear one of the past shows, you can go to FinancialDetox.com where we have them all listed right there conveniently in a player for you.

Jason Labrum: And also if you want to get ahold of us, we invite you to give us a call at 877-707-8889. That is 877-707-8889.

Jason Labrum: Hey, Alex, what's up?

Alex K.: So the past couple weeks we've had some really cool guests on the show.

Jason Labrum: Yes, we have.

Alex K.: We had Brian MacArthur, all about Medicare. Awesome.

Jason Labrum: He's good.

Alex K.: Super specific topic. I mean, it appeals to people that are 64 especially. And anyone who's already on Medicare should also take a minute and talk to Brian and think about that.

Jason Labrum: They should.

Alex K.: And then the week before that we had estate planning with Gabriel. and that was awesome too. So now it's just us. We're back to just the two of us in here.

Jason Labrum: That's fine. Kind of fun. Do you feel lonely?

Alex K.: No. Never. Never feel lonely. In a padded room with you.

Jason Labrum: A padded room is very scary.

Alex K.: But what I thought we could talk about today was because I've had all these conversations with a lot of clients these past couple of weeks. It's fun to be talking to clients again like I should be and like we all do.

Jason Labrum: What were you doing? Why weren't you talking?

Alex K.: I know, right? I just think that there's been a lot in the past couple of weeks more than usual, which is cool and that they all have a similar question. When is the recession coming?

Jason Labrum: Right. Man, does everybody talk about that now?

Alex K.: Like, when is it?

Jason Labrum: And if you listen to the news or the media, my goodness, the world is ending. I mean-

Alex K.: I don't watch the news, you know that.

Jason Labrum: I don't either, but I've actually been spending a little bit of time on CNN and MSNBC cause I had a friend.

Alex K.: Whoa, are you okay?

Jason Labrum: I'm fine.

Alex K.: Are you sure?

Jason Labrum: But I would just compare, I'll listen to like five minutes and then I'll listen to five minutes just when I'm in the car, because it takes me about 20 minutes to get to work. 30 minutes. Unbelievable, what people are being brainwashed towards.

Jason Labrum: I mean I think like journalism is so dead in this country and the news media, it should literally just be turned off. You shouldn't be allowed to listen to it.

Alex K.: It sounds entertaining, though. I kind of want to listen now because of the way you're reacting to it.

Jason Labrum: It's so bad, but everybody, you think you have to have a recession or you have to have ... I mean, I've never heard. I mean, has there ever been a time in history where all we talk about is the president? I mean that's it. That's all we talk about?

Alex K.: I don't know.

Jason Labrum:	We don't talk about anything else. It's so weird. But anyway, I don't want to get into the politics of things.
Alex K.:	That's okay. The answer to the question comes from what you're talking about though. People are expecting a recession because there's ... and guess what the answer is I keep telling them? Oh yeah, there'll be one. I don't know when. I don't know where, how long or for what reason and how long.
Jason Labrum:	Good answer.
Alex K.:	And then I remind them, here's the best advice we can give you, is to know how you're invested, why you're invested that way and that it matches your personal financial plan.
Jason Labrum:	Well, and how about the fact that you need to know how you are going to react when the recession does hit. Not when is the recession going to hit and how much or whatnot, because those are things we can't answer. But what you can answer, back to one of our famous old sayings we borrow from DFA is ignore what you can't control and focus on what you can control.
Jason Labrum:	You can control how you're going to react to that next downturn. You just can't control when it's going to come or how severe it's going to be.
Alex K.:	And that's what this is about. This show's about what the most important thing about an investment philosophy is that you have one. So what does that one supposed to look like, right? But I love the play on words, right?
Jason Labrum:	Who's the quote from? David Booth, right? So he says the most important thing about an investment philosophy is that you have on, or is it the most important thing about an investment philosophy is that you have one?
Alex K.:	And that you stick to it when times are bad. So, science. Who can argue science, right? Remember as a kid when you're in school and they're like, remember they taught you about hypotheses and theories and you start testing and like you're putting hydrogen peroxide together with, what is it, baking soda? The theory of grav-
Alex K.:	So we have a theory and we have a hypothesis that we're going to talk about. Could be boring.
Jason Labrum:	Modern portfolio theory. And we're going to talk about efficient market hypothesis. So we're going into some academics here about how and why you should invest.

Jason Labrum: I think one of the biggest mistakes that people make, Alex, is that they don't look at theory and academics and proof and evidence when they go investing because it's so in our face from a marketing standpoint because the investment community and Wall Street has so much opportunity to make money from you by selling you different investment strategies that there's tons of marketing about it and therefore, it's in your face all the time.

Jason Labrum: So you feel like you know how to invest because you are bombarded with messaging, although it's the wrong messaging. It's not how to invest; that's trying to sell you a particular product, and if we back up and go to how are we supposed to actually use these products that are out there and available, I think then we can uncover something really good.

Alex K.: Yeah, like science. Yeah, go back to like things that are proven.

Jason Labrum: So we're going to talk about this. We're going to talk about these three different things. Three or four different things, maybe some opposition to them. We've heard of terms like behavioral finance, the random walk theory. You have all kinds of ratios. You have modern portfolio theory, efficient, so all these different concepts, but in the end what we want to do by the end of our third segment of this show, which we have about a 30 minute time here together, is to allow you to hopefully hear us talk about this and come away with two or three points that you say, I'm going to do that. That is part of my ... My investment philosophy is blank.

Jason Labrum: We're going to help you form one right here on the show and we also want to leave you with our favorite challenge that we always have, right? We call it our portfolio challenge and it's simply an opportunity to give you a second opinion in a more creative way where we will look at your portfolio and financial plan or lack thereof and we will do some diagnostics on it. We will compare it to the portfolio that we would build for you, and if we don't make significant or measurable improvement in what you currently have, we're going to send you away with a $100 gift card and just let you buy yourself dinner or something for your trouble. But if we can make significant improvement, then we ask for an opportunity to earn your wealth management business and show you what we call pursuing better at IDA. And it's a better way to invest. It is a better way to manage your life's finances and it equals better outcomes, which is true financial peace of mind.

Jason Labrum: So take us up on our $100 portfolio challenge. All you have to do is send an email to jason@financialdetox.com. You can include your statements; you can include your holdings. We'll do some analysis on it. And I think you'll love the results and it'll give you some information whether you choose to work with us or not.

Alex K.: That's right.

Jason Labrum: Fun fun.

Alex K.: So the way that we do things started back in 1952, with Harry Markowitz. He wrote this paper called Portfolio Selection and then later he was given, he was awarded the Nobel Prize for modern portfolio theory, which is what we know about today. And so you talk about, you said something earlier, like the fish hook thing, right?

Alex K.: That's what people remember if you studied economics or finance, it's called the efficient frontier, right? what's the point of modern portfolio theory? We only have a couple minutes here, until we have to go to break.

Jason Labrum: Well, I think we should answer that when we come back from break.

Alex K.: Okay.

Jason Labrum: We're going talk about what's the importance of this? How and why does it matter? You're driving along in your car right now. You're listening to us on your iPod.

Alex K.: The iPod?

Jason Labrum: That's old school.

Alex K.: Whoa, man.

Jason Labrum: On your podcast-

Alex K.: Do you still have an iPod?

Jason Labrum: I don't know; that's crazy. On your podcast, but anyway, we'll give you some good information, so stay with us. We're going to be right back.

Jason Labrum: Okay, welcome back. We're talking about iPods here at Financial Detox. We're not. I literally said the word iPod. What's funny is that's like a Freudian slip because the other day, it was just like yesterday or something, I heard the word iPod and somebody was fun of iPods and oh man, I used to have my iPod. And so that was somewhere embedded in my brain.

Alex K.: Did you ever have an iPod? Did you ever own one of those?

Jason Labrum: Oh, for sure, yeah.

Alex K.: I still have one at my house. I don't think it works anymore. I think it finally died.

Jason Labrum: Little stick, then ... Remember the first one was like the size of phones today?

Alex K.: It was huge.

Jason Labrum: To hold music.

Alex K.: Apple's come a long way, yeah.

Jason Labrum: That's unbelievable. And now our phones have more capability to hold music than that huge thing that was as big as your phone that didn't take pictures and make phone calls and do massive computing.

Alex K.: It's crazy. Some things evolve; some things don't.

Jason Labrum: Holy cow, that's evolving.

Alex K.: All right, so we're talking modern portfolio theory.

Jason Labrum: That's what we're talking about here: modern portfolio theory. And I think kind of timing that or adding that to efficient market hypothesis. So basically, in layman's terms, in simple terms that we can all understand, not academic terms, is that there's kind of an optimum type of portfolio you can build for looking for a certain rate of return, given the level of risk you're willing to assume.

Jason Labrum: And risk is really defined in these terms as volatility. It's a better word because they're using volatility. They're using ups and downs. I don't think they're talking about poof, your money's gone. I think they're talking about standard deviations and betas and measures of risk and volatility.

Jason Labrum: But either way-

Alex K.: One of the things I think this one proved too, and it's on one of the articles that I was reading, was that the vast majority, somewhere between, and they've measured this over many different decades and different asset classes across the world, is the vast majority of your performance and your investments comes from asset allocation, right?

Alex K.: And so the key there is that it is 91%, is the last number I saw, but it's the variability in your returns, so it's not necessarily your returns and it's often misquoted as 91% of your returns come from your asset allocation. That's not true. It's 91% of the variability in your return.

Jason Labrum: So, it's a lever. It's how you control your returns. It is totally how you control the type of roller coaster you're about to get on.

Alex K.: So, stocks versus bonds-

Jason Labrum: Are you going to Magic Mountain and you're going to chill and whee and you're going to eat your ice cream while you're on the roller coaster. Or are you going to go to Magic Mountain where that that ice cream would be stuffed in your face as your hat's inside out?

Jason Labrum: Yell, strap in double arm, barred, chest locked, whatever. So that's the difference in that. But it is critical.

Jason Labrum: A lot of people think, well, I'm going to get a conservative portfolio so I'm going to buy some conservative stocks or I'm going to buy different stocks to make my portfolio have less variability in return. But history would show us that by adding bonds or fixed income or cash or other different asset classes, convertibles, whatever it may be. That's how we really can change the variability in the returns.

Alex K.: It starts to sound very factor based asset class and like what we do and then you marry this with what you said earlier, efficient market hypothesis and now let's jump to that one for a moment here.

Jason Labrum: Well, what I think is crazy about efficient market hypothesis. When he won this award, Eugene Fama for basically saying that markets do a really good job of pricing in information and therefore the current stock price is a very good reflection of the company's current value and it's all but impossible to try and determine what's going to happen in the future and thus change the price in the future.

Jason Labrum: He did this a long time ago. I think he was so far ahead of his time.

Alex K.: In the '50s, also. This was Eugene Fama, so you got two guys that won Nobel prize for economics, right? Harry Markowitz, modern portfolio theory. Eugene Fama, efficient market hypothesis from the back in the 1950s.

Jason Labrum: Which to me is bizarre because I use the analogy all the time. I talk about how you know, markets aren't what they used to be. If you think about 25 or 30 years ago and you wanted to buy a stock, you'd call up your broker and your broker would hopefully have some really good research from his big firm insurance whatever department.

Alex K.: What? His insurance department?

Jason Labrum: I mean some big firm research department, maybe an insurance company, too. Who knows?

Alex K.: Oh, I've got you.

Jason Labrum: And they would have this information that you would desperately need in order to do a trade and I believe there really was much more difficult or it took more time for information that was coming out, new news to be publicly disseminated.

Jason Labrum: But nowadays, that information is publicly disseminated instantaneously.

Alex K.: It's impossible to generate consistent alpha because stocks always trade at their fair market value, right? So then it's impossible-

Jason Labrum: Or close to it.

Alex K.: Right. And then, that kind of makes you feel a little bit helpless then. You're like, well, then what do I do with. Do I not buy stocks or what? What stocks do I buy? How do I buy stocks? that's the question that you might ask yourself.

Jason Labrum: Good point, and then yeah, you feel like, well, if it's impossible to generate alpha, then this is just a loser's game, but I think what we're missing there with that thought process is that it's harnessing the power of that efficiency that makes it a great winner's game if you have a discipline to to reap the benefits of that.

Jason Labrum: In other words, if you just get invested, diversified in the right manner with the right allocation, you rebalance correctly, there's lots of little things I think you can do to eke out benefit, but none of it has to do with stock selection or market timing. It all has to do with processes, procedure and discipline and and trade execution and such.

Jason Labrum: But you know, if you just do that, now you get to harness the power of the market and you get to do it while having peace of mind because you're not on the hamster wheel, trying to chase the next bit of news and the emotional roller coaster of, I'm positive, I'm negative, I'm positive, I'm negative. And I can tell you for one in my own personal experience being in this business for 20, I think I'm 21 years now. Oh my Lord.

Alex K.: You kept it at 20 for a while. You're finally moving beyond 20.

Jason Labrum: I know, I was at like 19 for and then I looked it up. I'm like, well, wait a minute. I can't be 19 if I started in 1998. So it's a lot.

Jason Labrum: But you know, I've gone through those myself to the point that where it challenged and actually at a time changed our investment philosophy. Not recently, not at our firm now, not Intelligence Driven Advisors, but we literally pivoted off of what we knew was right and what was the right thing because we were so emotionally driven to try and seek a better way.

Alex K.: You mean like trying to time the markets and things like that? Yeah.

Jason Labrum: Yes.

Alex K.: It's interesting because if you just embrace science proven theories, these are theories and hypotheses. Like, you can't argue that there's gravity, right?

Jason Labrum: Pretty tough.

Alex K.: Right. That's a law actually. So it goes like hypothesis, theory, law.

Jason Labrum: FinancialDetox.com and you can also give us a call at 877-707-8889. Last but, oh. Not last but not least. We do also want to let you know we have our portfolio challenge. It's up live this week. If you would like us to take a look at your portfolio, run it through our analytical tools and show you a comparison to what we would do for you, a comparison to what you have versus what we're doing for our clients, if we can't show you meaningful, measurable improvement, we will send you away with $100 gift card.

Jason Labrum: If we can, we ask for an opportunity to earn your business, but it's a fun way for you to get a second opinion with a potential reward. If you've been nailing it and you've got it done perfectly, there's a reward $100 cash you can spend anywhere you want and if not, you at least learn something new. So we invite you to check us out on that. We've only got a few minutes here, about five, six minutes to talk about the punchline here.

Jason Labrum: The punchline, I'm listening to this show. Why does it matter, Alex, that these guys are on their radio or on their podcast. Maybe even a iPod.

Alex K.: No, not an iPod, Jason. Because people are asking, when's the next recession? That's what made me think about this in the first place and I thought, well, what's the best way to answer a really good question like that? And one of the things is go back to what we know to be true.

Alex K.: And so these theories and hypotheses done by academic science, you know, scientists of investing, 50, 60 years ago are still true today. Have faith in capitalism. Embrace it in a way where you release yourself from the things that aren't true that you can't control. You can't control market moving up and down. You can't control government leaders causing uncertainty, right? You can't control people that are happy or mad, but you can control the levers, the what did we call it? The efficient frontier.

Jason Labrum: You can control how much volatility your portfolio is exposed to and, but then some people say this Alex and it's a fun question to answer. I really like when clients ask this. They're like, well, you know, it's the longest bull market ever. I saw it on TV. And I said, well actually it's not. And I don't know why conventional wisdom says it's the longest bull market ever. In fact, the chief investment analyst, it's not the chief investment analyst, it's one of the top investment guys from Schwab is speaking a conference. And somebody said something about the longest bull market ever. When's this going to end? And I raised my hand, I said, well, is it actually the longest bull market? Because here's a slide I have and a chart that shows every bull market, how long they were, how much rate of return.

Jason Labrum: And this is like the fifth longest bull market. It's not the longest bull market. So why does conventional wisdom, again, media news, this is why we have a show called Financial Detox, right? To help you get detoxified from a financial perspective, which provides clarity, provides peace of mind and better financial results. But I kind of lost my train of thought, man. Because you set me up for something really good.

Alex K.: I think the point is that the information you get is not meant to be always be useful to you and that you will blow yourself up if you don't come back to what you know to be true and tried and tested. Yeah. And so we wanted to share with people that there are like, we didn't just come up with this way; this investment philosophy has been around for 60 years.

Alex K.: The hardest part is staying disciplined. And knowing that there's going to be some bad times, there's going to be a recession.

Jason Labrum: And you triggered my thought process there is like people are saying so, well why don't we just do some of it? Let's just get out now. Because we know the markets are at near all time highs. We know that.

Alex K.: Time it.

Jason Labrum: So yeah. Why don't we just get out now and just wait?

Alex K.: Didn't you hear anything I just said? No, I'm just kidding.

Jason Labrum: And here's the specific reason why you don't, because you may be asking yourself that right now. Well, these guys don't know what they're talking about. I can just ... Market's lofty. You know, maybe it is and it may, I mean it seems logical that right now markets are good. This would be a good time to get out and wait until it gets down.

Jason Labrum: The problem is what if we solve a couple of the major negative items that are floating around today and what if the market goes up 15% from here and you were out? You got out to wait, but it goes up 15%. What do you do at that point?

Jason Labrum: Do you now have to wait for that market to come back down 16% before it turned out to be a benefit or do you at some point get so much good news that you go, "I was wrong, I'm going to get back in," so then you're now back into the higher point, which at that point then something surprise, shocks the system and it goes down 15 or 20% so you go, "Boy, I should have been out," and then you get out and then it rebounds.

Alex K.: You're stressing me out, man. This sounds terrible.

Jason Labrum: I mean, this is a terrible experience and I think that's a lot why people shy away and don't like this because that is the conventional experience that most people have when investing, but it's not what you have to have.

Jason Labrum: You don't have to experience that type of thing. And it always works like that because at some point the market moves against what you thought was going to happen. Just like a lot of people thought the market was going to go down if Trump was elected or whatever. It went up. I mean there are major, major hedge funds who bet heavily on the election and they were wrong and they've lost billions of dollars in doing that.

Alex K.: The last election you mean?

Jason Labrum: Yeah, that one. And they'll do it on this reelection.

Alex K.: Every one.

Alex K.: So, the better way to do this then is to have a disciplined, academic, scientifically-based way to marry things that are just tried and true.

Jason Labrum: Yep.

Alex K.: And then stick to it.

Jason Labrum: And I think what you say is perfect. I'm building an investment strategy that is going to take all the fruits of my hard labor, all your savings and all your investment money and you're going to put that to work and make it work for you.

Jason Labrum: Capitalism is where companies and human beings and individuals can go create products and services, innovate, sell those for a profit, sell services, sell products for a profit and we can as investors buy ownership in those companies or we can buy bonds AKA lend money to them.

Jason Labrum: If you think that companies and people are going to stop producing goods and services and selling them for a profit or if you think there's a chance that's going to happen, then investing in the stock market or in the markets are just not for you. However, if you think it's a low likelihood that all publicly traded companies on the face of the earth are going to cease to exist at some time in our near future, then you probably do believe in capitalism and you know that's the faith part, right? Are we as investors are going to continue to be rewarded for deploying capital?

Jason Labrum: I believe the answer is yes because we're not going to deploy capital if we don't keep getting rewarded over time for it. We will take our money and we will put it in other places. Markets have figured this out for well more than 50 years or 60 years. It's been hundreds of years that this has been going on. So I believe that if you think about it in a big picture like that and then you harness the power of the market and you construct a portfolio that delivers volatility that you are willing to accept, you now have eliminated the need, desire, propensity to get emotional, want to get in, want to get out because you just start in a portfolio that delivers the volatility. You can ex you can handle. We can build portfolios for you that have almost no volatility and we can build more aggressive portfolios that get a higher rate of return that have more.

Jason Labrum: So there's a spectrum, right? You get to control that lever and so what we're suggesting and to summarize this show is you don't have to be worried about the next recession, when it's coming or even how deep it's going to be. You can construct a portfolio that's all weather, that's all season portfolio that can take you through where you want to go and help you get to your goals and objectives.

Jason Labrum: And with that we have to close it. We invite you again to take our portfolio challenge. 877-707-8889. 877-707-889. We are the Financial Detox team at Intelligence Driven Advisors and if you want to pursue better, we will help you do that. Thanks for listening. We'll catch you next week.

Speaker 1: To learn more about Financial Detox and to get access to today's show notes, transcript and resources, visit FinancialDetox.com.

Speaker 1: 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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