Financial Procast # 56
Cash is King

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Brandon Roberts: Hello and welcome. This is the Financial Procast. It is Wednesday, September 25th, 2013. Episode 56 is here. I am Brandon Roberts.

Brantley Whitley: And I am Brantley Whitley.

Brandon Roberts: And we already covered that—a little bit before we started recording—there's about a 20-degree gradient between Vermont and Georgia today, so…

Brantley Whitley: It's the most wonderful time of the year.

Brandon Roberts: Guess we don't have to go down that road.

Brantley Whitley: No one cares anyway.

Brandon Roberts: No. No one cares. Your weekly weather report brought to you by:

Brantley Whitley: The Financial Procast. We should get a sponsor for the weekly weather report.

Brandon Roberts: We should.

Brantley Whitley: Like all the big shows.

Brandon Roberts: Well, The Weather Channel's down there in Georgia, maybe you should—

Brantley Whitley: Go see Jim Cantore, or whatever his name is?

Brandon Roberts: Jim Cantore grew up 20 minutes north of me.

Brantley Whitley: Well.

Brandon Roberts: In fact, went to high school with a cousin of mine.

Brantley Whitley: Isn't that special?

Brandon Roberts: Mmhmm. He goes back to the area a lot too.

Brantley Whitley: In his blue jacket.

Brandon Roberts: Mmhmm.

Brantley Whitley: When he's not standing in hurricanes, that is.

Brandon Roberts: That's correct.

Brantley Whitley: So, "Cash is King," huh?

Brandon Roberts: It is.

Brantley Whitley: One of my favorite things.

Brandon Roberts: Cash *is* king. So today we're going to dive into a little bit of financial planning strategy/philosophy, I suppose.

Brantley Whitley: Probably more philosophy than strategy, right?

Brandon Roberts: There was a way to say that and I totally did it wrong. Financial planning strategic philosophy is probably the more articulate way to put that point across. That's what I meant to say.

Brantley Whitley: So now you're articulate.

Brandon Roberts: Yes, yes. But anyway, this comes as sort of a constant theme for everything that we do that goes down the road of saying: Traditional financial advice is rather rigid, and that rigidity leaves people in a position where they really—if they follow it to the "T"—are backing themselves into a very particular corner and it's not good.

Brantley Whitley: What do you mean? Elaborate more on what you're thinking there. I think I know what you're thinking but let's not keep it a secret from our audience.

Brandon Roberts: So financial advice is typically like—

Brantley Whitley: You're talking about the typical stuff that you would hear from a Dave Ramsey or a Suze Orman or whatever.

Brandon Roberts: Yeah. Or even your local guy at Smith Barney or whatever it is they're called now.

Brantley Whitley: Edward Jones.

Brandon Roberts: A lot of it is distilled down to six or seven rules of thumb, and it's the typical useless stuff. In fact, we recently discovered that somebody at the University of Washington decided to take all of the financial advice that exists and basically turn it into a four by six index card.

Brantley Whitley: That sounds like a great idea. It's really simple anyway.

Brandon Roberts: And to this guy, this is it. These are the—

Brantley Whitley: The University of Chicago, actually. Let's not—

Brandon Roberts: Oh. The University of Chicago.

Brantley Whitley: Let's not smear the University of Washington.

Brandon Roberts: It was the Washington Post that published this article.

Brantley Whitley: Right.

Brandon Roberts: So the University of Chicago. And so here this guy comes out and says, "Here it is. I've distilled all of the financial advice knowledge that exists down into this four by six index card."

Brantley Whitley: He couldn't use a three by five, huh? He had to go four by six.

Brandon Roberts: Could have. I think he said he could have but he just didn't have one. Apparently there were some budget cuts at UC Chicago, or UC rather.

Brantley Whitley: That's bad news for a professor when he has to use a four by six because that doesn't fit in a shirt pocket behind the pocket protector.

Brandon Roberts: Well, as soon as he writes a book that puts him on par with Steven Levitt, then he can get all the three by five index cards he wants.

Brantley Whitley: I'd like to see a debate with him and Steven Levitt. I think he'd have a few things to say about this.

Brandon Roberts: So anyway, this four by six card has one—

Brantley Whitley: There's like 11 things, I think. It kind of depends. It's a bunch of run-ons, so it's kind of hard to tell.

Brandon Roberts: We can run through it. I mean, we've got more than enough time to actually tell you what his typical advice is. It starts out with: max your 401(K) or equivalent employee contribution; buy an expensive, well-diversified mutual fund such as Vanguard target date funds; never buy or sell an individual security—the person on the other side of the table knows more than you do.

Brantley Whitley: That's a lie.

Brandon Roberts: Save 20% of your money. Pay your credit card balance in full every month. Maximize your tax advantage saving vehicles like Roth, SEP and 529 plans. Pay attention to fees: avoid actively managed funds. Make financial advisors commit to a fiduciary standard. And promote social insurance programs to help people when things go wrong. I have no idea what that means, but anyway.

Brantley Whitley: I guess we should be promoting food stamps and welfare.

Brandon Roberts: So none of this takes into consideration the fact that having a… None of this is new. Let's start there. This is the same advice that typical financial advisors have been parroting for years.

Brantley Whitley: If you did a blog search on Google right now and typed in "personal financial advice," you could pull up… In the last—I haven't done it—but in the last week, I'll bet you could pull up 30 articles that have the same advice.

Brandon Roberts: And here's my problem: The noise machine behind this advice has gotten louder and possibly even bigger over the course of the last 10 years. And yet, economic achievement from a standpoint of well-established planning and financial security has gotten worse.

Brantley Whitley: The inverse correlation.

Brandon Roberts: Every time someone writes an article about preparation for retirement in the United States, it seems to be the case that we've regressed.

Brantley Whitley: Right.

Brandon Roberts: Despite the fact that, according to this guy, it's really as simple as what's on this four by six card.

Brantley Whitley: If it's really this simple, how come everyone's not doing it?

Brandon Roberts: But you and I have met people who have followed this advice to the "T".

Brantley Whitley: Right.

Brandon Roberts: And they get to a point where it's about time to retire and it's like it didn't work as well as they said it would.

Brantley Whitley: They didn't have a terrible outcome necessarily. Nothing tragic or anything. Because if you're saving enough money, you know, you'll do okay.

Brandon Roberts: Right. You can save enough money into a bad plan to manage.

Brantley Whitley: Right.

Brandon Roberts: But, here's the thing: The people that we have met, that I've met, who have kind of been the most financially secure, the best off, are people who typically don't follow this kind of advice.

Brantley Whitley: Absolutely.

Brandon Roberts: And the thing that they do—and this is also something that's typically characteristic of most successfully run businesses in the United States—is that they have a very, very large cash reserve.

Brantley Whitley: Right.

Brandon Roberts: And that cash reserve gives them options.

Brantley Whitley: It does.

Brandon Roberts: That the typical person following this advice is not going to have. This four by six card says nothing about an emergency fund. It says nothing about… Its investment philosophy is 100% low expense, well-diversified mutual funds, which he further kind of suggests are Vanguard target date funds. But most of these people would tell you just to go out and buy a Vanguard ETF or index fund.

Brantley Whitley: Right. And here's something that I for a long time had trouble sort of reconciling in my mind. Because you'll often read even advice from people like Warren Buffett or other people who've been tremendously successful financially, and they'll sort of parrot this same advice, right? They'll tell you the same sorts of things, like you should be maxing out your 401(K) and that sort of thing. But those people aren't doing it themselves, right? Warren Buffett didn't get rich by maximizing his 401(K).

Brandon Roberts: Right.

Brantley Whitley: Which is… There are a whole host of reasons why. Chiefly that it didn't exist for most of his life. But anyway, that's beside the point. The point being… And I think, I had a hard time reconciling that for a long time. Like, why should we listen to people who aren't doing it? And I've finally come to the conclusion that it's not that those people even think that this is really the best course or the best way to achieve financial security or wealth. They just know that most people are so inherently lazy and aren't willing to do the hard work of… What am I trying to say? They don't have the focus to achieve true wealth on their own, so—

Brandon Roberts: So it's the plan with training wheels.

Brantley Whitley: This is like, "Hey. You'll do okay if you just do this." And I know I'll probably get hate mail for saying that, but that's okay.

Brandon Roberts: So what? It's true.

Brantley Whitley: Yeah, and I've reconciled that. It's not that this is the only way or even the best way. This is just an easy answer because people don't like to hear, well…

Brandon Roberts: It takes me back actually to—this is going to be a weird analogy in the beginning, but we'll come full circle. It takes me back to a conversation I remember—

Brantley Whitley: It won't be any weirder than strippers and insurance agents.

Brandon Roberts: A lecture that took place actually when I was in college for somebody who worked for a certain media company, who came in and was talking about sort of the quality of media and what it is that they do to figure out how it is that they're going to set the stage for the articles that they put together and they put into their media resource for people to consume. And his whole point—

Brantley Whitley: You mean like a quality standard or whatever that they—

Brandon Roberts: There's that but there's also the, like, what turns into news? And what do we talk about and how do we talk about it? And for him, he made that point that it's like we have to sort of keep in mind that not everybody is as sophisticated as certain people. And so we get a lot of criticism from the more well-read, potentially more savvy individuals who get bored by our stories, but we have to keep in mind that there's average, everyday Joes who are sitting in their living rooms who are perfecty happy getting up, going to work for eight hours, coming home, sitting in front of a TV and drinking beer. We have to appeal to those people too because there's a lot more of them than there is of the people who are willing to read thousands and thousands of words on an article that has a complex argument into it. So, for these people, I think, there has been this sort of idea that's like, "Well, there's more complicated things that more savvy individuals could do, but not everybody is that way. We have to appeal to a broader audience, so just max your 401(K) and you'll be fine."

Brantley Whitley: Right. No, I completely agree with you. I think that's the dilemma. You have to always consider that in the media—in that analogy, the media source—they generate their revenue through advertising, so—

Brandon Roberts: So it's all about eyeballs.

Brantley Whitley: It's all about eyeballs. They have to be able to say… If they're a paper, they have to say, "Well, our circulation is X," or if they're a television program, "Our number of viewers is X and this is the demographics of our viewers," and all that sort of stuff. That's how they generate their revenue.

Brandon Roberts: So does that mean websites, that give out information that do not generate any revenue from ads are maybe more… more better?

Brantley Whitley: Yes, theinsuranceproblog.com is more better. Yes. Well, I can say this because you and I have—not to be completely self-promotional, but you know, on The Insurance Pro Blog, we've talked about selling advertising space, right? And one of the problems that we have is that we're equal opportunity offenders, so we're not going to temper our speech or the things that we say based on the fact that someone might get pissed off that we said something and they're an advertiser. Like, we just don't care. And it's not because we don't like money, because we do.

Brandon Roberts: We also don't care when we piss off the companies that we do business with on the insurance side. That's happened several times.

Brantley Whitley: That's happened a couple of times, but that's okay too, right? It's not that we don't like money. We would love, you know, to make more money. It's just that there's a certain degree of integrity that we feel we have to maintain, and it's really hard to balance it. I mean if you could have sponsors or advertisers that said, "Just say what you want to say and that's fine," then that would be okay, but that's not reality.

Brandon Roberts: So anyway, the point here is: this advice is not… it's ubiquitous. It's everywhere. It's there. It's very easy to find, and despite its existence, there doesn't seem to be an overwhelming amount of success to it. And so, if you're… It comes back to the old sort of, I guess it's kind of an aphorism… I used to hear somebody pitch this a lot, which is, "If you're getting what you're getting, it's because you're doing what you're doing, and if you expect it to change, you actually have to do something to change that." And so, if you feel like you're saving all this money and you really haven't gotten ahead, and you're sitting there going, "What's going on?" It's probably your approach.

Brantley Whitley: I would agree with that. Why is it that—and this is a rhetorical question. I don't think there's a right answer to this. Why do you think—I've sort of floated my theory as to why I think people, why this advice just gets perpetuated over and over and over again—but why do you think? I mean, do you agree with me? Or do you think there's another agenda, I guess?

Brandon Roberts: So why do you think that this gets presented over and over again?

Brantley Whitley: Because it's easy. Because most people can understand it.

Brandon Roberts: It's compliance friendly?

Brantley Whitley: It's definitely compliance friendly. It's not going to get anyone in trouble. It sounds a lot like the advice your grandma would have given you.

Brandon Roberts: I don't think grandma would have necessarily said this.

Brantley Whitley: At least in my case, anyway. Not every part of it, but the bit about saving more money and—

Brandon Roberts: Well, saving money is always a good idea.

Brantley Whitley: And taking advantage of tax qualified things, that's what I was talking about specifically. My grandfather who has done quite a bit of investing over the years—I don't know that he's ever bought any mutual funds really. But that's beside the point. I'm just asking you: Why do you think…?

Brandon Roberts: I still think the draw to it for people, and I think it's the industry that's sort of picked up on this, that there's an emotional, feel-good factor to being an investor.

Brantley Whitley: And you can retire a millionaire and all that sort of…

Brandon Roberts: Well, I don't even know that it's about retiring as a millionaire as much as it is the industry very quickly learned that people tend to associate being an investor with some sort of achievement or status. And so by virtue of doing that, you're accomplishing something that's really important, and the industry exploits that fact. And so it puts this out there. It tells people it's the de facto way to sort of save for retirement, and so it's sort of like this snowball effect where putting my money into a mutual fund means that I'm an investor which means I'm important and I'm special and by virtue of setting this up, I feel good about myself because I'm told that it's the way to do it and that puts me ahead of the game. In terms of the actual advice itself, like max out your 401(K) and buy inexpensive ETFs and things like that, again, I think it's definitely a compliance-driven situation where the people who want to give the advice know that they really can't make certain claims without somebody in their compliance department saying, "Can't do that." And we've even had some companies try to impose their compliance will over some of the things that we have said about certain aspects of them. And we basically raised our middle finger and told them what we thought of that. There's a specific I'm thinking about a year ago where we got a little feedback email from somebody basically telling us that we needed to make certain revisions to something, and they were stupid revisions. They were like, "We don't like the word that you used in the fifth paragraph on this page and we think that you should use this one instead."

Brantley Whitley: Typical compliance.

Brandon Roberts: Yeah. And we're like, "Wait a minute…"

Brantley Whitley: "We don't work for you."

Brandon Roberts: We don't live in that world, but we used to, and so we remember what it was like and we remember why we got away from it. And I think that it's that kind of distilled, watered down… it's the thing that passed its mustard with the most amount of attorneys that makes us think we're not going to get in trouble that brings this sort of advice to the table.

Brantley Whitley: Right. It's so watered down. That's a good way to put it. It's just… Whenever I read it, I just go, "My God. Please have some conviction about something." It's just so… I mean, I feel like at least we're willing to put our—you can disagree with us, that's fine. But at least we're willing to say something that—

Brandon Roberts: I've tested the theory several times, and it works.

Brantley Whitley: —that we actually believe. Instead of just going along.

Brandon Roberts: Well that's the thing. The stuff that you and I talk about and the positions that we champion are ideals that we came upon by being tested and seeing that they actually worked.

Brantley Whitley: Yes.

Brandon Roberts: Instead of parroting some form of advice that we were given by somebody else that we've never seen in practice, we don't know, it's all theory, and we're just saying, "Well, I read it in a book," or "Somebody told me what to say so this is what I'm going to say."

Brantley Whitley: Right.

Brandon Roberts: I'll give you a really good example and I'll make a life insurance example here about distributions. We've known that the traditional advice is—if you want to use life insurance for income purposes—is withdraw the basis and then use policy loans to avoid income taxes, because that's the way that makes the policy best perform. I had a conversation with—actually two conversations just last week that said, "That's how we typically do it, but I don't know that that'll always be the way to do it, because there are certain provisions and certain contracts that would make that less attractive." And so, yeah, that's the traditional piece of advice, but we always have to be willing and able to challenge that and make sure that it's actually the best way to go about doing something, because if we don't, we might put you in a bad situation where it's not so good. So there's a lot of hands on challenging of the ideas that we typically do.

Brantley Whitley: Exactly.

Brandon Roberts: And compliance is nowhere near fast enough to get there. The second reason that I think this happens is because it's convenient. I mean, the mutual fund companies want to sell mutual funds, and so they jump on this bandwagon because it says, "Buy these things," and just about every fund company has now jumped on the ETF or index fund bandwagon and say, "Yeah. We've got one too."

Brantley Whitley: Right.

Brandon Roberts: So give us your money.

Brantley Whitley: And they all feed into, I mean every savings vehicle that's mentioned here, they've got 401(K)s, they've got Roth IRAs, SEPs, 529s. Everything there is geared toward mutual fund business.

Brandon Roberts: The other thing that I've always thought was funny about this kind of advice is how it can be kind of an inherent contradiction. Where it's like, "Max out your 401(K) but make sure that you buy low-cost, well-diversified, non-actively-managed mutual funds." Well what if your 401(K) doesn't have Vanguard in it or an ETF in it? What do you do then? Do you still max out your 401(K)?

Brantley Whitley: Like that plan you were telling me about. That you looked at recently.

Brandon Roberts: That's when we get back to, "Well, this is not meant for personal advice, it's just for entertainment purposes. You should seek out the advice of your advisor. Who may not know any more than I do."

Brantley Whitley: No, no, no. But they always know the person on the other side of the table knows more than you do. About this stuff. According to this card, anyway.

Brandon Roberts: So anyway, the topic for today is that cash is king, and so now—

Brantley Whitley: Oh yeah. We should get back to that.

Brandon Roberts: So now, we've complained enough about this advice, we should probably get to the actual fact of what we mean by "cash is king." And so, you and I are fundamentally of the opinion that one ought to hold a lot more of their assets in cash or some sort of cash equivalent in order to basically give themselves options but also to act as a huge safety cushion. We covered the story a couple of weeks ago about the fact that the one percenters look back at 2008 and said, "Our only regret is that we didn't have more cash sitting around for the event."

Brantley Whitley: Exactly.

Brandon Roberts: And there are recent reports out that show us a lot of financial advisory firms have huge cash positions. Some are even recommending it. And there was one in particular, and I'm trying to remember the name… It's in Massachusetts…

Brantley Whitley: GMO? GMO.

Brandon Roberts: Yeah. I forgot what GMO stands for though.

Brantley Whitley: Oh. I just know it's really famous and it's been run, well their chief investment strategist is Jeremy Grantham, who's a pretty famous guy in and of himself.

Brandon Roberts: They just came out like a week ago and said, "Our average client has about 50% of his or her assets in cash."

Brantley Whitley: Which is crazy, right? Because they manage like a hundred billion dollars in assets. So that's pretty… That flies in the face of traditional advice. So much for asset allocation, huh?

Brandon Roberts: Yeah. But here's the thing about having cash. You have options. Lots of them. And so… And this is the problem… Well, actually. Let's talk very, very, very deep fundamentals about one of the issues here. Your average financial person—and I mean average by the numbers—who is a registered representative or a general securities representative, so they either hold a Series 6 or 7 FINRA license is <u>not</u> licensed to give advice. I'll say that again for dramatic effect: <u>Not</u> licensed to give advice. Their job as a registered rep or a general securities representative is to basically give you ideas of various securities that you could purchase. But when it comes to theory and strategy, that's really not what they're supposed to be engaged in. And so for them, any discussion about timing the market is headed into a danger zone. Now, there are many who do. There are those who do rather intelligently, where it's kind of like, "Well, I'm not really supposed to… I can't act professionally in that manner, but if we were friends talking, here's what I think." And so the reason that cash as a really great option where you have all these different doors that open to you as a strategy goes, one, those people can't really make any money off of that situation because they don't get paid to sell cash equivalents. And two, they really have to be very careful about going down the road of saying, "Well, you know, if you held 50% of your assets in cash, you could always take advantage of a real estate opportunity or a dip in the market opportunity or maybe somebody will come to you and tell you about a private placement that is available or you'll have an option to become a private partner in a business and you'll have the cash to do it."

Brantley Whitley: "And meanwhile, I'm not making any money for that."

Brandon Roberts: Right. And I only want to tell you about things I'm going to be paid for, so I'm not going to do this.

Brantley Whitley: Right. And you know what's amazing to me, because I've had this experience even with lots of people that I know on a personal level. They get real heartburn about sitting on cash.

Brandon Roberts: Really.

Brantley Whitley: In their investment accounts. I'm saying, you know, let's say someone's got a million bucks in their brokerage account, if they have a hundred thousand dollars in cash, they just, "Well, I'm only making half a percent on that." Well yeah! So what? It's okay. It's there for an opportunity. There may be an opportunity—

Brandon Roberts: It's not going backward.

Brantley Whitley: No. It's not going backward. It's there for an opportunity. And they always want to be… And that's… To me, if you want to watch successful mega investors, the one trait that I've noticed about them all is that they're patient. They're extremely patient. They wait for the opportunity. And the thing is, people will say… They get really anxious about the fact that there's no great opportunities right now. But that's okay. Just wait a minute. There will be an opportunity at some point.

Brandon Roberts: Well, here's a story--and I don't think I've ever told you this story. It's funny that I haven't because I know that you look up to Warren Buffett a lot. I actually know somebody who works for a Berkshire Hathaway company and has personally met Warren Buffett and had lunch with him and stuff like that. I remember a story that he told me several years ago, which kind of went down the line of, they were at lunch—and it wasn't just him and Warren, there were several other people. But they're sitting there and they're talking about business strategy. And at that lunch, Warren Buffett says, "Listen. In terms of all the things that are going on right now and possibly going on and opportunities that we have in front of us, we have tons. And here's why: I've got X amount of money just sitting in the bank right now." And it was a big number.

Brantley Whitley: Sure. Many billions.

Brandon Roberts: Yes. And it's like, it's sitting there. And here he is just talking about the fact that this substantial portion of my net worth is sitting in cash and I'm just waiting for an opportunity.

Brantley Whitley: I'm not really earning anything on it. For the most part, essentially. Because he's waiting for the opportunity. He's not going to invest just to stay…

Brandon Roberts: Just because he thinks he needs to be seen investing.

Brantley Whitley: And this is where the lines get blurred because this blurs the lines between what a true investor does and what asset allocation teaches, which is you stay invested always. That's the blurred line. People can't reconcile that. They're like, "All I ever hear is about asset allocation and stay invested," which is completely invented by the investment industry, by the way, because just like you said earlier, they're not making any money unless you're invested. So, they don't want you sitting in cash. That's bad for them.

Brandon Roberts: Well, you can sit in cash in their mutual funds or their money market funds. They can't do much with it, but at least they've got it and they can charge you like—

Brantley Whitley: But on the advisor level, they're not making any money on that.

Brandon Roberts: Yeah.

Brantley Whitley: So they always want you to stay invested. But they have a hard time reconciling those two and the truth of the matter is: the people who are the best at this are just tremendously patient. They don't buy… If they think something is overvalued, or doesn't have the growth potential, they don't buy it. They'll just wait.

Brandon Roberts: Right. "It's not a good option: we stay out of it." Whereas a lot of people dive into their 401(K) dumping money into it having no idea what they're doing and they're just doing it because they need to be an investor and they need to put money in their 401(K) because the four by six card said, "Max out your 401(K)."

Brantley Whitley: Right. Have you ever read any stuff by Sir John Templeton?

Brandon Roberts: No.

Brantley Whitley: Any of his writings at all? Really good. He was a deep value investor. I mean, extraordinarily deep value investor. One of the things he always talked about was that holding onto cash is not really a bad thing because the first point was that… Well, first thing is that if stocks go down, you're not going to lose any money. And his second point was, if stocks do fall, then you just got… the world is your oyster.

Brandon Roberts: Right. You can buy.

Brantley Whitley: Now you've got opportunity. I mean, I know that's really simple advice, but he was very successful engaging in that advice himself for many, many, many years. I think he worked until he was in his 90s or something like that.

Brandon Roberts: Well, I've never personally discussed investment strategy before. I've hinted at the notion that I personally hold on to a certain amount of cash or cash equivalent, and it works out pretty well. Now, there are always those that will criticize the cash piece because you're losing money because inflation is wearing away at your cash equivalent. I would contend, "Well maybe," but if it's there for a certain intention to make more money through opportunity, then inflation may not be that much of an issue.

Brantley Whitley: It's not because the opportunity, when those opportunities come along, it's going to so far outpace inflation.

Brandon Roberts: Right. The other comment I was going to make is I've got some strategies for products that will keep pace with or beat out inflation as a cash equivalent.

Brantley Whitley: Oh really?

Brandon Roberts: Yeah.

Brantley Whitley: Tell us more about that.

Brandon Roberts: We talk about life insurance every day and in my opinion, it is the ultimate cash equivalent. I shared on The Insurance Pro Blog just this week, actually, that I took advantage of an opportunity to buy a piece of real estate at a significantly discounted price. And had I not been a hoarder of cash and side life policies, and had I followed traditional financial advice and put all this money in a 401(K) or an IRA, I wouldn't have had the opportunity to do it because I would not have had access to the money.

Brantley Whitley: Which has also been earning a decent rate of return.

Brandon Roberts: Absolutely. All the people who whine about their bank account, or whine to me about their bank account, I'm always kind of thinking, "Well, it sucks to be you." I mean, here's an opportunity where the anticipation is really a very, very large rate of return. There are people who will go, "Well, how do you replicate that?" And the answer is you kind of have to be in the right place at the right time. But you have to be looking for those opportunities. On top of the keep cash, look for the opportunity as well, I guess is my follow-up.

Brantley Whitley: With a footnote, don't make an opportunity out of something that's not an opportunity.

Brandon Roberts: Exactly. If this thing was a situation where I was buying this thing for like 25% more than what I'm paying for under the anticipation that I would just sort of flip it to somebody else, I wouldn't be doing it. I'm only doing it because one, I got the discount I was looking for, and two, I've already got a buyer lined up.

Brantley Whitley: Right. You started with the end in mind, to be a little bit colloquial.

Brandon Roberts: Here's the thing: If I didn't do this, then the rate of return on the money that I'm already getting on the money sitting where it is more than good enough for me to be happy.

Brantley Whitley: It's fine. Exactly. I've made that point to people for years with cash-value life insurance. It's a great place to warehouse cash. And then when these sort of opportunities… You'll earn a very fair rate of return on your money, and you'll have—

Brandon Roberts: 500 times what you get at the bank in a savings account.

Brantley Whitley: And it's tax-advantaged. And when an opportunity comes along, you have access to the money. I mean, literally. How easy is it to get your money out of a policy? You pick up the phone and you say, "Hey."

Brandon Roberts: Well, I'm the agent, so I personally logged into the website, went to the "request service" button, and typed in the amount I wanted sent as a check and there it is.

Brantley Whitley: Exactly. And a couple of days later it shows up. And that's it. There's no discussion. You call the customer service line, I mean, you can do it either way.

Brandon Roberts: You can do it that way too. They're happy to do it. It doesn't take any time at all.

Brantley Whitley: And there's no hassle. People are always like, "Well, are they going to try to talk me out…?" No! They're going to say, "Okay, Mr. Roberts, how much would you like?"

Brandon Roberts: "Would you like that checked mailed through regular mail or would you like to pay five dollars to have it overnighted?"

Brantley Whitley: Exactly. That's the only question you'll get. "Let me make sure I've got the address right." And that's it. "Is there anything else I can help you with?" It takes less than a minute. No argument from them at all. So, I love it as a place to create opportunities.

Brandon Roberts: Unlike when you call the fund company and say you want to redeem something, and they're like, "Well, are you sure? You should stay invested."

Brantley Whitley: Yeah. Exactly. God forbid you try to roll out of a 401(K). Fidelity will keep you on the line for an hour.

Brandon Roberts: I'll tell you a story because you name dropped them. I was going to keep it a secret.

Brantley Whitley: I don't care.

Brandon Roberts: I know somebody who worked for Fidelity because Fidelity's local, kind of, to me, and they have a fairly big customer service department down in New Hampshire. I know somebody who used to work for them—

Brantley Whitley: They're huge in the 401(K) market.

Brandon Roberts: Yes. Her job was basically to be the retention specialist. So, when somebody called looking to take money out of their fund, from Fidelity—money market fund, didn't matter—called up to say, "I want to take X amount of money out." If it was $500, they didn't really care, but if somebody called and said, "I need $5,000," they went to her and it was her job to talk them out of it.

Brantley Whitley: So they'd get transferred over to her, basically? Wow. Not surprising. I know back, years ago when I was working in the investment business still, I would have clients that were moving money out of 401(K)s, and I would always have them, I would always say, "Let's call them together from my office because then you won't get hassled." And they don't. They absolutely wouldn't hassle them at all when they knew that I was sitting there with them.

Brandon Roberts: But if you weren't, they'd get the—

Brantley Whitley: You know what they do, is they just confuse people.

Brandon Roberts: Lying over the phone, then they get all the letters in the mail saying, "You're making a mistake. We don't know why it is, but you're just making a mistake."

Brantley Whitley: Because we're losing money.

Brandon Roberts: "Because we've learned that if we send you a letter that says 'mistake' in it, you'll stop and go, 'Wait a minute.'"

Brantley Whitley: Yeah, "We'll just scare you." That's what they're doing.

Brandon Roberts: So cash is a really great thing, and there are a lot of people who are taking it seriously; they want it. The traditional criticisms that exist about how it's just such a bad idea is really, potentially not correct.

Brantley Whitley: Yeah. Did you see that bit about…? That was a good point and one that I have often thought about and never articulated. In this article that I was looking at, this guy articulated that a lot of financial advisors will make the statement that if you were holding on to cash and you just missed the best ten days in the market in the last 100 years—or whatever time period you want to be—you would have gotten much, much lower return. But the converse is, if you missed the ten worst days, you'd have gotten a lot better return. I've always thought that. You can split those numbers up a hundred different ways.

Brandon Roberts: It's always about FoMo, isn't it? Always! Always. The investment industry is built on that concept. "You have to be in here. What happens if you're not and the market takes off?"

Brantley Whitley: What happens if I'm not and the market goes down?

Brandon Roberts: What happens if I do and the market goes down?

Brantley Whitley: It's the same. The probability of it happening is the same either way. That's the thing. And if I was in for the ten best and the ten worst, then statistically, it's a complete wash.

Brandon Roberts: It's like the people that reach out to us who are like, "I have $15,000. What mutual fund do you think I should be in?"

Brantley Whitley: Maxwell House.

Brandon Roberts: And the answer is, "Um… None of them?"

Brantley Whitley: Maxwell House? That coffee can? Dig a deep hole in your backyard…

Brandon Roberts: And here's the thing. It doesn't have to be mutual funds. They could call us up and say, "I have $15,000. What's the best life insurance policy I should buy?" And the answer is, "None." Maxwell House. Again. No. You're not doing that. If you have $15,000 to your name, put it in the bank. Be quiet. Save more. And then we'll talk from there.

Brantley Whitley: I agree. You don't have the liquidity. If something comes up, what are you going to do?

Brandon Roberts: I mean, we can make the life insurance rather liquid, but no. You're not ready yet.

Brantley Whitley: No, because you're going to derail the plan the first time something comes along and you need money. You're not going to do yourself any favors, and we don't want to be the bad guys.

Brandon Roberts: Speaking of cash and the love of cash and the specific use of life insurance for it, I hear BOLI is doing awesomely right now.

Brantley Whitley: "BOLI." Is that a disease?

Brandon Roberts: No. BOLI is--

Brantley Whitley: Oh. Not ebola.

Brandon Roberts: BOLI is an example of an industry being so appreciative of its number one customer, it named a product after it.

Brantley Whitley: Yeah. Exactly. "We're going to name it just for you guys. You give us so much money."

Brandon Roberts: BOLI stands for Bank Owned Life Insurance and it has surpassed $140 billion in the first half of 2013.

Brantley Whitley: That's a lot of moola.

Brandon Roberts: We know this. This has been going on for years and years. Banks love the product. They love it as a cash position. They love what it brings to the table. They buy lots and lots and lots of it.

Brantley Whitley: Right. They're able to book it as Tier 1 capital, I believe.

Brandon Roberts: Yeah, they are.

Brantley Whitley: Which is… We won't go into that really, but that's an important metric for them.

Brandon Roberts: For them, there are really no mark to market concerns, right? They don't have to worry about Thursday's market dip, meaning that this awesome cash position they have is no longer as awesome as it was. And speaking of the mark to marketing cash aspect, one of the greatest stories that came out of 2008 is the fact that Lehman Brothers had all kinds of assets and was for all typical kind of financial metric purposes in pretty good shape. The only issue was they got margin-called into oblivion and they couldn't raise the capital to satisfy the obligation of the call. And that's what ultimately killed them.

Brantley Whitley: Right. It wasn't that they didn't have any money.

Brandon Roberts: They didn't have any cash.

Brantley Whitley: They didn't have any money after all.

Brandon Roberts: They had assets. So they're like the typical person who's got 75% of their assets—

Brantley Whitley: Oh. That's an interesting parallel.

Brandon Roberts: —In real estate and all of a sudden—

Brantley Whitley: And/or qualified plans.

Brandon Roberts: Yeah, and all of a sudden, they have a major cash need and they don't have any.

Brantley Whitley: "I've got a house that's worth a half a million bucks, and I paid it off." Well, that's wonderful.

Brandon Roberts: Yeah. In 2008 your half-million-dollar house was only worth maybe $250,000 in equity, and that was after 60 days of fighting the bank if they gave you the money anyway.

Brantley Whitley: Right. Which they didn't want to do. I agree.

Brandon Roberts: And so again, the problems are easily fixed with cash.

Brantley Whitley: And the banks know it.

Brandon Roberts: That's why they hold onto it.

Brantley Whitley: So how do they do it?

Brandon Roberts: What do you mean?

Brantley Whitley: How does it work? How does BOLI work for them?

Brandon Roberts: So BOLI is not… It's typically set up as a single premium issue. And it's a non-qualified deferred comp situation where executives at the bank are the insured and the bank purchases very large life insurance policies on them that are very cash heavy, and they're used to fund obligations that come to the bank, like when they need cash to fork out benefit plans or things like that, or to make general investment, sort of, moves. And they hold on to the asset, and of course, once the insured gets old and dies, then there's a death benefit that's paid to the bank. Lots of times, by virtue of being a member of that plan, there is an additional incentive that is made to the insured, so there is either an additional retirement benefit that gets paid out to that person, or the death benefit is shared in some fashion with that individual's beneficiaries.

Brantley Whitley: Oh. Okay. So they kill many birds with one stone.

Brandon Roberts: Yes. But again, it opens a lot of doors and it makes a lot of cash available to just open up a wide array of opportunities.

Brantley Whitley: Yeah. It does. And they… It's interesting that… I mean, most people don't know that banks use it.

Brandon Roberts: Yeah. It's funny. It's gotten more well known over time. I think some of it is the negative stigma from the WalMart dead peasant thing, which is completely different, has nothing to do with this. These people know that the insurance exists, they're signing off on it.

Brantley Whitley: Well, yeah, because it's going to fund a benefit that they were promised. Typically it's part of some recruiting package or something like that.

Brandon Roberts: Retention is the—

Brantley Whitley: Yeah. Because typically, there's a vesting period and that sort of thing, right? Attached to it?

Brandon Roberts: And it's not just BOLI. There's also COLI, which is Company or Corporate—depending on how it was presented to you originally—Owned Life Insurance, which means a company has a desire to purchase life insurance and they do it on an executive and they hold the cash as an asset within the corporation.

Brantley Whitley: Same idea.

Brandon Roberts: Right. Same idea, just different name. They wanted to name it after someone else in this case.

Brantley Whitley: And the life insurance industry loves this stuff so much that they make sort of special products that fit. These are not off-the-shelf, available to everyone deals.

Brandon Roberts: No, but you could also… You could take the regular plans and develop them the same way. And in some cases, you could take the regular plans and make them work even better than specialized COLI products.

Brantley Whitley: True. Which we do. Have done. Will continue to do.

Brandon Roberts: I've been in that situation before. I mean, we work with people who often times have enough money to buy the COLI products, and we've looked at them and compared them to what we can do with the traditional policies, just blended. And a lot of the times, the traditional policies work out better.

Brantley Whitley: Yeah, they do, and particularly in the long run, because these products… You have to think about how they structure these products. They often call them balance sheet products because they're designed to have very high—

Brandon Roberts: They sacrifice long term performance for very short term cash availability.

Brantley Whitley: CFOs like that because it makes them look good. I mean, that's the truth of the matter. Not that they're bad long term, by any stretch. Okay.

Brandon Roberts: Better than L65 with a certain…never mind.

Brantley Whitley: Let's not go there.

Brandon Roberts: Yeah, so with that: Cash is king. Hold on to lots of it because it will give you all kinds of opportunities, and if you're trying to get ahead, take the four by six card, throw it in the garbage, and just forget it.

Brantley Whitley: I think that's great advice.

Brandon Roberts: That sounds like a good, end of the day—

Brantley Whitley: Yes.

Brandon Roberts: —synopsis.

Brantley Whitley: It does.

Brandon Roberts: Well then on that note, I am Brandon Roberts.

Brantley Whitley: And I am Brantley Whitley.

Brandon Roberts: And we'll be back next week to do it all over again.

show notes at http://theinsuranceproblog.com/056

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