Passive and Sustainable Investing with Personal Capital's Brendan Erne

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Dave: [00:00:00] All right, folks. Welcome to Investing for Beginners podcast tonight. We have a very special guest with us. Brendan Erne from Personal Capital is the director of portfolio management at personal capital, and he has joined us tonight to talk to us about investing and all kinds of great stuff. So Brendan, could you take a moment and, I guess, tell us a little bit about yourself and maybe some of your background and kind of how you came to where you are today?

Brendan: [00:00:24] Yeah, absolutely. A pleasure to be here; first of all, guys. But, but yes, so. I, as you mentioned, my name is Brendan Erne; I'm originally from the Pacific Northwest, actually the east side of the Seattle area. And then I moved down to the bay area in 2004, where I've been ever since and reside today.

I've always held roles in the financial services industry, particularly in investment management, and my career has kind of. Progressed a little bit, I would say it, at least in far as my investment philosophy is concerned into the role that I'm currently in a Personal Capital where we're focused on more passively managed long-term investment portfolios and wealth management for clients, but kind of my, my roots are beginnings where we're a bit more of the opposite of that and more of the active management world.

You know, as an analyst, trying to pick stocks, pick the cap categories of the market that we felt were going to outperform. So I've kind of had a little bit of a. You know, progression, so to speak, but yeah, I ended up where I am today.

Dave: [00:01:20] So how has that changed from going from an equity analyst and picking stocks to what you do today?

Was, was that a difficult transition for you or kind of, how did that work for you?

Brendan: [00:01:29] You know, it wasn't; it was one that just kind of naturally occurred. I was, you know, I really enjoy being an equity analyst and picking, sorry, it's fun to go into pick stocks and to try to, you know, beat the market.

But I think what I realized, and this was when a lot of the data started coming out, is that just when you look at the data that the vast majority of active managers out there, the ones that are trying to outperform the market, these fund managers, they don't, they actually underperform their, their underlying benchmark.

And then, so it's very difficult just from a numbers game and then the ones that can. I don't really have a great chance of doing it consistently every single year over time. It really only takes one, it kind of blows up, so to speak, to erase all those gains. And I think, you know, the poster child of this, you know, during my time as an equity analyst was built, you know, Bill Miller from the Legg Mason value fund you know, he was hailed as this financial genius.

He beat the S&P. I forget how many years in a row it was, wasn't it like 13, 13 I think was the, it was the number and then 2008 happened, and you know, all that outperformance went to under-performance. And so you know, It just, it's very difficult to do, even from a professional standpoint, you know, consistently over time.

And I saw the impact that had on clients' portfolios and, you know, I really just thought that there was a better way to go about it. And that's where my mind had kind of shifted into more passive management that, that really the best chance of success. Just kind of your average, the everyday investor is not to go out and try to pick stocks, and you know, try to gain the market.

You can do that, you know, but just make sure it's not the lion's share of your net worth or that if you lose that amount, you know, it's going to have a heavy impact on your retirement. You can have fun with it that that's fine. But you know, at the end of the day, if the professionals, you know, with all the resources they have at their disposal, Aren't able to do it on a consistent basis.

I mean, how is your average day, you know, everyday investor going to do that with; they don't have teams of analysts like focusing on every single detail of every company. So that's really where my mind shifted and moved towards passive management and that the best chance for long-term success is really just owning the market instead of trying to kind of dance around it.

So to speak.

Dave: [00:03:39] Yeah, that makes sense. So I guess explain to maybe our listeners who aren't familiar with some of the terms, like the difference between active management and passive management, what does that entail?

Brendan: [00:03:50] Yeah, so, so active management just means you're making active calls within the investment portfolio.

And so you're trying to find stocks or companies that you think are going to outperform an underlying benchmark. Let's say it's. The S and P 500 is an index, you know, within the US, a lot of us fund managers try to outperform the S and P 500 by picking various categories of the market, whether it's overweighting certain sectors or just the companies that they're actually investing in.

So again, the goal is to generate outperformance versus the market. Passive indexing is a little bit different, instead of trying to outperform them. You just buy and own the market. And so you buy a fund or ETF that tracks that underlying index, and you're not actually trying to go out and make those active market calls to predict what you think is going to outbreak.

Dave: [00:04:37] Okay. That makes sense. So at Personal Capital then, so what, what, what do you guys do at Personal Capital for those who aren't familiar with the company and kind of what you do there? What can you tell us a little bit about that?

Brendan: [00:04:48] Certainly. So we're what I would probably call digital-first or digital forward wealth management and financial services company.

And that just means we kind of put technology at the forefront of the client experience, and we use that technology too, or just leverage that technology too. Provide what we feel is just a better overall client experience in a more kind of cutting-edge client experience. So we have something that's called the financial dashboard.

This is free for anybody to go in and sign up. And when you log in, you'll just aggregate all of your financial accounts. You might have. Vanguard, you might've won at Schwab; whatever the case is, you can aggregate them all into one place. And then you can view your entire kind of financial life. So to speak, in one location as one portfolio.

So you can drill into fund fees, all those kinds of things to see what you're paying. So that's kind of the: first piece or the initial front end of the personal capital experience. And then on the backend, we're a, a, you know, a wealth manager. So we actually manage portfolios for clients. If you have over a hundred thousand and investible assets, you can hire us to manage those portfolios.

Dave: [00:05:51] Cool. So the portfolios that you guys manage are those. Are those a combination of like Robo-advisors or are you guys actually, is it more hands-on, you know, I sit down with you, and then we talk my goals and kind of work through that kind of process.

Brendan: [00:06:07] Yeah, no, the word Robo-advisor is somewhat of a little bit of a bad word around our company.

We, we don't take no that's okay. So yeah, but you know, we, while we put technology first and try to leverage it as much as we can, I mean, we come to the realization. Yeah. I mean, money above all else is probably one of the most emotional and personal things for people. And so we just don't feel a true, like a Robo experience is the best experience for clients.

People have emotions, and they need to talk to a human being. And so every client that signs up has an advisor; there's that human interaction always on that other side of the phone or video screen or, or even in person. Yeah, so everybody has an advisor, a personal account.

Dave: [00:06:47] Awesome. So that's, that's great to hear because.

I know that I had an experience with betterment a few years ago, and it was, it was really frustrating because there were some things going on in the market, and I didn't have options, to react to what was going on in the market. And it was really frustrating. So that is very appealing to me. I know that's something I like.

So, I come from the banking world. I worked at Wells Fargo for about five years as a personal banker. And one of the things that I noticed right away, That nobody had people who had nothing saved for retirement. And I've read about kind of the looming crisis, if you will, with retirement. So what are your thoughts on that?

Is it real? Is this blown out of proportion? Is there, is there a way we can come back from this?

Brendan: [00:07:35] Yeah, that's a great question. And I would say, you know, if we're not classifying it as a crisis, it's certainly. A major issue that needs to be addressed. I think, you know, personal capital, we put out a survey very recently actually.

And I think we found that about 60% of people in the country have access to a 401k and only about 30%. Of the people who utilize the 401ks, over half of the people aren't even touching the 401k. And those 401ks often come with company matches free money that, you know, investors need to take advantage of.

And they're not. And I think the median retirement account for. Someone who's just about to retire, close to like 65 was about; it was like close to like $70,000. And that's all that was in the retirement account. And so that's not good. We, we need to improve, and we need to improve by, by a lot more than that.

And so, you know, ways to go about doing it. I mean, I think it's just financial clarity, transparency. And I was just talking about this because there's just a lot of people that just don't understand. I think your podcast is a great example of trying to get the word out simply because there are so many people out there that just don't understand the investment side of things.

And when they don't, they often just get paralyzed, and they don't make a decision at all. You know, rather than just put some money to work, they don't do anything just because they're somewhat frozen. So I do think, yeah, getting the word out there is the best thing that you can.

Dave: [00:09:00] Absolutely. We, we a hundred percent agree, and that's a big reason why we're here is trying to help educate this view.

And I saw that day in and day out at the bank, and it was, so it was so discouraging and so frustrating. And like you said, the free money that they're just not taking advantage of it. Yeah. If they found 20 bucks in the street, they'd pick it up. But, but they won't, they won't do it. They won't do it in their investment account.

And I think a lot of it is fear, and I think it's just education. And, you know, I, I was opening the other day that I wish, you know, how CNN has been running the COVID trackers through this whole ordeal. I wish they would do the same thing with retirement. So they would get the word.

Brendan: [00:09:41] I agree. I mean, yeah, they just need to raise awareness of it.

And then I just think, yeah, financial literacy is just a big part of that as well. They are just helping people understand. What their options are and how to invest towards the future. But, but absolutely.

Dave: [00:09:54] So how can personal, how does personal capital help with this and, you know, what, what are you guys trying to do to help people with this?

Brendan: [00:10:02] Well, I mean, I, our official mission statement of the company is better lives through technology and people better financial lives through technology and people. And so. You know, we're really trying again to leverage that technology to produce better client outcomes. And that's really where, you know, I talked about or alluded to earlier about passive management.

So that's really our overarching, you know, investment philosophy. But we, we do as much as we were full-service wealth management firms. So when clients come to us, we do as much as we possibly can for them, whether it's—insurance planning. We, we don't sell any products. We don't make commissions of any kind.

We're registered investment advisors to make that clear that we're, we're a fiduciary, so we don't make commissions. But we do, you know, estate planning, tax planning, you know, any kind of financial planning need that a client might have. We're there to help them or guide them through that, that answer, and that, that learning process so that they can kind of figure out and get a grasp of their financial life.

I do think our financial dashboard is just such a great piece of technology because once you aggregate all your financial accounts, then everything is live and real-time. So for all of our clients, we know the very second that something in their financials. Changes because it shows up in their financial life.

We see it on the dashboard. And so we know exactly when, oh, they've now reached, you know, a couple of years to retirement or they just got an inheritance or maybe they should get more conservative or more aggressive. We see that information it's dynamic and real-time. And, you know, we can just reach out and say, Hey, we're, we're moving you to a more conservative strategy based on this.

And it's just such a seamless experience that, you know, I think that. It just does so much to help clients kind of ease them into these types of things. And just helps with a lot of those difficult conversations. Are harder to have when you have to be in-person in an office, filling out, you know, paperwork with a pen.

I mean, we just, technology can alleviate so much of that, that headwind for, for clients. And so I think that's one of the areas that, that we help.

Andrew: [00:12:01] Brandon. I'm gonna jump in here. I'm going to ask you a tough one. So, you know, you mentioned Fund managers, whether it's a hedge fund or other fund managers not able to beat the market.

And you also mentioned, you know, recommending buying an index. So I guess my question would be two-part one why, you know what's the value add if they should just, if clients should just be buying an index and then two Is moving a portfolio to more conservative, kind of, not like away from the market.

Is that kind of shifting more towards active versus passive?

Brendan: [00:12:36] No. So, well, let me start by taking the indexing question first. So I think passive indexing is a good first step from active, but I do think passive indexing has. Flaws to it as well. And I think the biggest ones are the fact that most passive indexes are market cap-weighted or more; most indexes are market cap-weighted.

And what that means is that the size of the company. It is going to dictate how large of a position it is within that fund. And that just seems a little odd that just because a company is large, that means you need to own more of it. Right. And it kind of goes counter a little bit to the fundamentals of finance of the BI-LO and sells high because.

It is inherently buying something that's already gone up in value more and owning less of the stuff that is potentially undervalued. So you're somewhat systematically doing the opposite of selling high; you're selling high essentially, and, or sorry, selling low and buying high. So that's a problem with passive indexing in its true form.

So. One of the approaches that we take, Personal Capital, is what we call smart weighting, and this is where we more equally weigh different factors within the portfolio. So we're still not out there picking stocks that we think are going to outperform, but what we're doing is we're—broadening the diversification across various factors.

Such styles like growth value, core size. We have a more even weight exposure to mega-cap, large-cap, mid-cap, and small-cap, as well as equal exposure to each economic sector. By doing that, you know, we can still say that we're passive indexing because we aren't trying to pick which categories are going to outperform the market, but doing systematic backtests, you know, we've, we've seen that that's been able to produce kind of better returns in the market with lower risk just by kind of spreading that risk more evenly within the portfolio.

So that's kind of the difference in our investment approach. And then I would say, When you hire us to manage your portfolio, it's not just that, that you get, I mean, we do use portfolios of individual stocks, and that also allows for additional benefits. Tax-loss, harvesting tax location. This is the process of locating higher-yielding securities in IRAs so that you can shield that income from taxes.

We have, we can do a, you know, kind of more acute rebalancing, so to speak. So there are a lot of other benefits that come from just, you know, from our portfolios rather than just owning a passive index fund. So that's that side of thing. And then I'll, I'll need you to repeat the second part of your question.

I'm sorry. I think

Andrew: [00:15:06] you could, you, you kind of covered it. You, you really encompass the whole theme of it. So I guess just to circle back for beginners, when you mentioned value factors, you're talking about groups of stocks with different characteristics, and then within those groups, you have a, basically an entire, yeah.

Brendan: [00:15:21] That that's right. So, the value or the style factors are things like you have value stocks. These are the companies you know that are, might be paying higher dividends. They may not have as high of growth rates; typically, more established growth stocks are the ones that you know, often, they don't pay dividends.

They plug all their money back into growth. They have high revenue, growth rates. And then you can just kind of have the middle, which is referred to as core and the best way to probably. Label. This would be just the Morningstar style box. If you were to go to morningstar.com and look up a fund, you would see that there's all the style box.

So you have large values, small values, you know, large growth, small growth. And so, yeah, the idea is really to spread. Risk more evenly across each of those buckets because they do go in and out of favor. It's cyclical, you know, over time that one category is going to perform well and another is not. And then you want to be able to take advantage of the stuff that is.

We'll also rebalance it into the stuff that's about to do better.

Andrew: [00:16:15] Totally makes sense. And I think, you know, it's a good, good way to kind of think about when we, when we think about different industries. So I know when you guys reached out to us, you had mentioned how you have a focus on ESG. And so one of the big things that we're trying to get in front of and trying to present a lot of information for, for our listeners, is the whole green revolution because I think it's, it's quite clear too.

Many of us, regardless of what pocket of the market you're looking at, that there's just this huge push, not only from companies but the governments and individuals to, to move towards energy that is more green than, so it's not even a question of if it's more of a question of when, so on your side. You know, obviously, we're not talking about individual businesses or anything, but are there certain types maybe talking about factors?

Is there a way that you guys are, are adding that kind of exposure for clients, and is there a way that other average investors can emulate that?

Brendan: [00:17:11] Yeah, so, I mean, I think I would take it up a level higher. Instead of saying the green revolution, I mean, I would almost just say sustainable.

The revolution, which encompasses, I think all the factors within kind of ESG green being just more of the environmental side of things, but you also have the social and the governance and, and yeah, I mean, this is a. This is a really important area of the market, and we see significant demand growth here.

And I think the USF is just a forum for sustainable and responsible investing. They did, you know, they do their surveys every couple of years. And I think they said that the last one, that about one in $3. Professionally managed assets in the US are now incorporating some form of sustainable mandate.

And then I think even Bank of America recently came out with their own figures saying that in 2021, about 30% of all global equity inflows were into ESG. And that you know, that number basically doubled over the year before. So this is growing really fast, and I. That it's growing and I'll, I'll highlight maybe a couple of reasons why I think it's growing so fast.

And then you know, basically like how you can apply that or how investors might be able to access that. And I think it's growing fast for a couple of different reasons. One is just a value base. It's the common sense that, you know, companies, there's just a growing consensus that companies need to be more responsible stewards of the environment of their communities and of their employees.

And so, more investors want to build that into their investment philosophy and their investment choices. So there's that aspect to it. But the one that I think gets missed the most, at least in the retail space, the institutional world has picked this up very, very fast. And this is where ESG is already spreading.

Wildfire in the institutional world. It's that ESG factors are actually financially material to a company's bottom line. In other words, they impact profitability. And I think that's the point that a lot of people in the retail space just haven't been exposed to yet. I mean, when you think of. Let's just say like an industrial manufacturer.

Suppose there to go through and reduce their carbon or their energy and water utilization that lowers their cost of capital. And that actually flows directly through, through to earnings. So it's not just doing well by the environment. They're actually improving their competitive edge, and the same can even be said on social and governance factors.

You know, companies that do right by their employees are better able to retain top talent. Whereas more diversity, particularly at the board level, has been linked to greater levels of innovation as well as better financial performance. And I think that's really a common theme through, though most of the research that's emerged in recent years, is that companies are performing better on ESG metrics.

Tend to be more profitable and produce stronger financial results. So I think that that fact, or that. In conclusion, so to speak, from all this research that's out there is really driving a lot of the demand towards this space. So this is an area of focus that you know, as personal to me, this is what I focused on specifically at Personal Capital.

So I'm something that I'm, that I'm passionate about. And, you know, I think there's a couple of ways that investors can get, get on board with this and. The first, well, there are two ways. Yeah, it's done it yourself or hire a professional. Those are really the two camps that you can choose from. And so in the, do it yourself world, it can often be.

A little bit daunting to try to go through and do all the research to pick all the individual stocks. Suppose you're building a portfolio of individual stocks to basically produce a well-diversified ESG optimized portfolio. So if someone's going to go this route, I mean, my suggestion is. You know, go and low cost, passive ESG funds.

So again, that goes back to passive management, just being, in my opinion, at least, you know, a, a better chance of success for, for retail investors over the long term. But you know, again, I think you have to be careful even when you do that, because when you kind of peel back the wrapper on passive funds, particularly in the ESG space, they can have really significant sector or category concentrations.

You know, more than a third of their portfolio in technology, you, you want exposure to technology, but not when it's more than a third of your portfolio. So you need to be careful when you're building a portfolio. So there's a lot of great options out there. There's a lot of low-cost options out there, but just make sure you've examined your exposure when you buy it so that you know that okay.

If it does have these huge concentrations in technology, I'm probably going to have to offset that somehow in my portfolio by buying or supplementing with additional funds, whether they're ESG optimized or not. The one thing that you can't do is just. Abandoned the fundamental principles of investing is diversification, just to jump on board with ESG, you know, you need to pay attention to your exposures, and I've, I've seen a lot of people come through.

They say like, oh, I just, just want to own, you know, green, green, clean energy, that's all I want to own. And they pile all their money into it. And I mean, I think you can probably imagine what happens if that turns south for any period of time. I mean, that puts their entire retirement at risk. So you still need to keep the core.

Principles of investing in place. And again, if that means folding in non ESG, optimize, you know, positions into your portfolio or funds into your portfolio, you need to do that in order to get proper diversification, particularly if you're building a portfolio across multi-asset class global diversified.

So. That's how I would approach it in them, do it yourself world. Again, I'd look for kind of a core low-cost ETF. That's ESG optimized. Of course, you're going to have to go look at the mandate, figure out if you agree with how it's making the decisions on ESG. But then supplementing that with kind of some traditional funds and ETFs to make sure you still have that diversification.

Now the other side of that is that of the higher professionals. So this is obviously I'm going to feel a little more biased on this one because this is what I do for clients. But you know that there are benefits that come along with this, right? I mean, you can more easily get a portfolio that is built with individual stocks.

And not only does that allow things like the better ability to tax optimize, but it allows you to customize as well. So, you know, with an off the shelf, thunder, you know, ETF, you can't go and say, I don't like Walmart. I don't think it agrees with my values. You, you can't go and exclude that or remove it from the fund or ETF.

So you need a portfolio of individual stocks to do that. And so that's where you, you know, hiring a professional can be, you know, a good route. If you want to kind of, I think, just have a more robust offering that has just a little bit more personalization allowed within it.

Dave: [00:23:45] Yeah, that's a great insight.

And I w I, I, I agree with a lot of the things you're saying, and I wonder, do you feel like that as the economics become more obvious and will capitalism kind of step up and I guess convert somebody like a Walmart who people may not agree with, do you think that. Do you think that may eventually become just a standard operating procedure for companies as opposed to something that's differentiating them from one or the other?

Brendan: [00:24:19] All right. So for your question, you are just mostly asking. Will a Walmart eventually kind of become more ESG aligned. Is that the main question,

Dave: [00:24:28] I'm just wondering if, you know, you made a very astute point about the economics of it.

What you were talking about is actually way better for the company in the long run. And I just wonder if eventually that the economics will win out and we'll, you know, we'll eventually overcome some of the resistance to that. Maybe some companies are having to, to embracing some of these ideas.

Brendan: [00:24:52] I, I think that is absolutely true, and that will absolutely happen.

More company boards are beginning to realize the financial materiality, so to speak of ESG issues and the realizing that, you know, not all. Does folding them into their operations in their business practices. You know, that that's obviously, you know, it's better for the world, and it's better like investors like it more, but it's better for their business.

And the more companies that realize this, you're just going to start seeing adopting it across the board. I would say the companies that are probably are, are a little bit more behind would be the smaller companies. Just because, you know, it can be. Some upfront, you know, additional costs in order to put a robust ESG framework, you know, within your company operations.

And so they might be a little slower to adopt, but I mean, I think there's a growing pool of capital. I mean, particularly in the institutional world that only wants ESG. Analysis, sorry, they don't just want yesterday. That's a part of the portfolio that they want. It's one component of the portfolio that they want.

So when that's the case, that's going to motivate these companies to not only disclose ESG issues, but by disclosing, they're going to realize. We obviously can't have poor metrics after we disclosed. So we're going to have to improve and report on this stuff ongoing. And I think that's where a big benefit of the rating agencies come in is that they actually can kind of push companies into reporting more in order to get better scores because more and more people are starting to look at those rating agencies.

Dave: [00:26:22] Yeah. W let's talk about those rating agencies a little bit. We had, we had a question about that a few, a few months ago, and I guess I'd be curious to get your thoughts on the rating agencies and

maybe how that works and the adoption of that. And I guess, and I guess to talk a little bit about maybe some of the downsides to some of that if there are.

Brendan: [00:26:42] Yeah, absolutely. So we actually use Sustainalytics at Personal Capital for our ESG scoring data. They're the experts; they've been doing this for several decades. We're pioneers in the field, but there are a number of rating agencies that are out there. And I would say. The good news with rating agencies, it's still kind of early innings. The good news with the rating agencies is that there's becoming they're converging on a more standardized way to define ESG criteria and to report and score on ESG criteria. So I think that was one of the early pitfalls of using them. They were so disparate in their approaches that there wasn't anything that was well-defined.

But I think, you know, with the advent of like the sustainable accounting standards board but I think it's based here in San Francisco, they came out with a framework, the framework, essentially, financial materiality and. You know, each industry is subjected to different ESG issues and risks. And a lot of the rating agencies are now incorporating that broader framework within their scoring methodologies.

And then we're also starting to see the government get involved. We just, we already saw that in Europe with the EU taxonomy and the sustainable financial disclosure regulation and. Probably at some point in the US going to see something similar. And so I think over time, it's just, it's going to get better and better, but I think it's still in a pretty good spot relative to where it used to be, you know, many, many years back.

So that's good. The downside of the rating agencies, I mean, I guess. I guess it would just be the flip side of that is that, you know, it's a slow progression for them to get to that point where things are, are very, very well-defined and kind of standardized across the industry, so to speak.

But, but I do think they've gotten a lot better in the fact that most of the major players out there are now focusing on financially material, ESG issues. I think that's doing a lot for them.

Dave: [00:28:40] Yeah, that's great. So I guess, talk to me a little bit about some of them, like, how, how do you, how do you guys work through the, when you're working with any funds that there's been some criticism on, on Finn twit about some funds that have had.

Air quotes, not really ESG friendly companies rolled into those funds. So is that something that you guys work with? Maybe the funds to try to. Change some of that or how, how does any of that work?

Brendan: [00:29:16] Well, I think the tough part with all of this is that you know, some of it can be very subjective. Right.

And that's, it's a difficult thing to kind of pinpoint and say you know, just because you think this fund qualifies is, you know, ESG optimized, so to speak, and this company thinks that it's not so, so that's a difficult thing to solve for.

So there's also the concept of what's called greenwashing out there. And that's where some of these funds kind of hit themselves as this ESG, you know, greener, more sustainable funds.

When in fact they're not, they just, they might just own, you know, a certain cohort of the market that they think they can call green, but, but it's not really green. So I think that side of things will improve. Probably quite a bit in coming years, just because the SEC has started to step in and address this head-on and say, okay, if you're going to.

State that you were a, you know, sustainable or ESG manager; you need to have proven steps within your process to show that you're applying those metrics to your portfolio. So I think some of those funds have capitalized on just the frenzy around kind of green and sustainable investing. But, but I think over time that that will get better and that more of those companies will, will go away.

Dave: [00:30:34] Good. I'm glad that that was, honestly; that's been one of my concerns about it is just the some of the. Shadiness that can sometimes go on and it's, it's, it's discouraging because you know, the idea behind what you, what you're talking about is it's, it's, it's something that needs to happen for not only the companies but also us.

And so why people choose to use that for ill is kind of sometimes disheartening, but I'm glad to hear that. So, As somebody that's maybe trying to do this on their own, how can they, how can they avoid some of those air, air quote, greenwashing type funds?

Brendan: [00:31:14] Well, it's, it's tough to spot, but I mean, I think just the more you dig under the wrapper and dig into the investment methodology, I mean if they continuously are using like hot buzzwords, like in their descriptions, and there seems to be a lack of I guess just supporting evidence within their portfolio to you know, say that they're actually doing what they're doing.

So again, the easiest way is to just peel back the wrapper and look at the underlying fund holdings. And to be honest, you can even track high-level ESG scores. You know, if you go to the MSCI website, they'll give you the top-level ESG score. You are supporting data that's underneath it. You have to subscribe to their service in order to get that.

But I think even Yahoo finance gives free Sustainalytics scores. So, you know, anybody can kind of go and just see from a rough high level, at least, you know, whether this company qualifies or not.

Dave: [00:32:07] Awesome. So I guess, how did you, how did you end up, how did this become a thing for you? Like what, what led you to, what do you know, focusing on that?

Brendan: [00:32:18] It's a good question. And I think it's probably a variety of things. I think I've always just had somewhat of affinity, you know, being kind of a Pacific Northwest or, you know, at, at, at heart. I think I always just kind of had an affinity. For nature, you know, even do, you know, landscape, nature, photography as a photo enthusiast in my off time.

So I think the environmental side of things is really what kind of sparked my interest in it, like, from the beginning and then kind of how that evolution played out at my company is that more and more clients started—asking for an offer in this space. And as the director of portfolio management, I saw all the types of customization requests that would come in from these clients.

And I just, a lot of them didn't want to own tobacco. A lot of them didn't want to own big oil. And so there were these very common themes that I was seeing and I. We could do that, and we can do that for anybody, but we didn't have a holistic portfolio that not just excluded those categories that they don't want to own or the more controversial categories; we just didn't have something that proactively went out and sought companies that are doing better on environmental, social and governance issues.

And so we just want, I wanted to have a more holistic approach to it. And so that's where the idea really sparked from. And I mean, There's also just the fact of living in the bay area, to be honest with you, you know, there's that, and then there's, I mean, climate change, it's something that a lot of people probably think because this far off you know, kind of intangible subject, but living in the bay area it's anything, but

intangible, I mean, it's right in your face with the number of wildfires that we have on any given year with the entire city, just doused in smoke for weeks on end.

I mean, it's just. The wildfires aren't 100% driven by climate change, but it's a major part of that. Yeah, exactly. And so, you know, it's just very front and center and very real and very, almost alarmist in the bay area. And so I just wanted to do so do my part, and you know, this was one way that, that I can help.

Dave: [00:34:17] Yeah, that's awesome. I, I applaud you for that. I, I used to work in the wine industry, and so I went to Napa and Sonoma a lot, and all you have to do is go talk to one single winemaker or 1, 1, 1 guy out working in the fields, and he'll tell you that things are changing and it's, it's happening pretty drastically there.

And it's, it's scary. It scares them, you know,

Brendan: [00:34:40] They are. And I mean, there's been a lot of damage up there. You know, there, we lost a lot of wineries and some of those recent fires. And yeah, that's, that's kind of. You know, partial or like, you know, part of my heart as well, because I am a big wine person.

And so you know to, to see that as really saddening.

Dave: [00:34:57] Yeah. It really is. Yeah, for sure. They will. The next few vintages are going to have a smoky after taste, but, you know,

Brendan: [00:35:04] yeah, exactly. Not the

Dave: [00:35:06] greatest. I guess, I guess pivoting off of the ESG, why don't we talk a little bit about it. How to survive, a market crash, really different segue.

So if it comes again, you know, there's all this discussion about whether we're in a bubble, we're not a bubble. So how can investors set themselves up for success if something like that comes to pass?

Brendan: [00:35:27] So the first thing that comes to mind is always, anytime I talk about this subject, it's. The number one rule in Hitchhiker's Guide to the galaxy.

It's don't panic, right? I mean, that is the biggest reason why people hurt themselves in any financial downturn is that they wait until they sell off is almost complete. Then they sell their entire portfolio, go to cash. And then not only until after it's risen, you know, but X amount and they've also missed out on most of the upside, do they figure out, okay, there's the all-clear signal I guess I can get back in, and they've just erased.

A significant portion of their net worth. So, I mean, they don't panic is, is kind of the kitschy version of that. But I think from a more, you know, technical perspective I think there is, there's a couple of things, and it goes back to what I was describing earlier with kind of our diversification strategy at personal capital.

So you can imagine that you know, there are certain people that are more susceptible to downturns than others. And I think the ones that are more susceptible to downturns or the words. That kind of chase performance, so to speak. So if there's a hot segment of the market that's doing really well, they kind of chase that performance and they want to invest, and they kind of get in a little bit late, but either way, they see it all the way to the end when it's gone way up.

And unfortunately, what goes up the most in the market tends to fall the most when the subsequent crash happens. And those people end up getting burned. Pretty much more than, than anybody. So you gotta be careful when you're doing that, especially if you're actively out there picking stocks. But you're also susceptible to passive index funds.

And what I mean by that is, you know, you might think that you're diversified by just going and buying an S and P 500 index fund. But the reality is, is that what we described earlier with, you know, market-cap-weighted in the largest companies making up, you know, a larger weight in those funds. That means in 1999, If you bought the S and P 500 fine thinking that you're, you know, diversified, you have more than a third of your portfolio in tech.

If you were in 2007 and eight, before that downturn, you had the same and financials. And what happened at each of those sectors, they both fell 80%. I mean, that's a significant hit to your net worth. Even if you just bought what you thought was a diversified passive index fund. So that's really where we think, you know, the approach that we're taking with more equally weighting, the various sectors, and styles, and categories within the market, it more evenly distributed.

So you're never really fully exposed to those bubbles or those concentrated segments of the market that boil up to those frothy areas. And then have those severe and violent downturns, you know, by more equally weighting sectors, you do have exposure to what's doing. But you're never overexposed to what's doing well.

And so I think from our perspective, that's the best way. We know to try to help mitigate some of that volatility from market crashes, but, you know, ultimately. Don't panic. Don't try to jump and dance around any sort of downturn. You know, it's best to just kind of hold on if you can, and you know, write it out because the market always goes back up.

Dave: [00:38:29] Yeah. And w we saw that for sure. What happened a year ago, March, and now look at the market now. So that's a perfect, perfect illustration of that, I think. Yep, absolutely. So I guess. Do we want to touch the third rail and talk about the meme stocks

Brendan: [00:38:47] we, we, we can yeah, that's, that's an interesting area of the market for sure.

Yeah, you know, it's interesting and unfortunate, to be honest, that I think a lot of the people that have jumped onto that. Bandwagon is going to end up getting pretty badly hurt. I think that you hear the stories of the, you know, the few people that are striking it rich or that we're able to sell and get out.

But I think the vast majority of people getting into that area are going to hurt themselves. So that's kind of the unfortunate part because I know that, you know, it was kind of this. I dunno, visual representation of the individual investor, being able to kind of take on the, you know, the David and Goliath moment.

Right. And it turns out that the individual investors are probably going to get hurt more and in the long run. But you know, I, I've also heard concerns like, Hey, does this pose—risk to, to the market in general. And to be honest, I, I don't think there's any sort of systemic risk built-in from this kind of, you know, day trading.

And when you think about it, I mean, the market is still, I, I forget the last latest figure, but I think it's about 80% owned by large institutions. And these are, you know, institutions like pension funds, foundations, endowments. These are ones that are not. Jumping in on the meme stocks, they're not going out and just overturning their portfolios at the drop of a dime because, you know, they're trying to squeeze out a short seller.

So I don't think that we're going to see any sort of systemic risk to, to the rest of the market, but yeah. And some of these smaller names that do have, you know, a lot of short sells built into it, you might see some, some oddballs.

Dave: [00:40:22] Yeah. That's for sure. Yeah. One of the things that I think. I've heard people ask me questions to talk. I think they get an average, and they think that they can strike it rich like you were saying quickly.

And I think that. What we're talking about is, you know, growing your wealth over a longer period of time. Yeah. A lot of people don't realize this, but Warren Buffett really didn't become the gazillionaire. He is until he was about 70 or so. And he was wealthy obviously, you know, before that, but, you know, he didn't really escalate his wealth until much, much later in life.

And so it was a long gradual, you know, up, up to climb for him. So I think that's one of the things that I guess has concerned me about some of the meme stocks is just the. The striking it rich, you know, you're, you're in California. So, you know, the gold rush, you know, everybody moving out there to try to strike rates quick, and it just doesn't work that way.

Brendan: [00:41:15] Yeah. It's always getting dangerous when that element of greed creeps in. Just because, you know, it's, it's the slow and steady turtle that wins the race. I know that's not exciting. And you know, people have such a hard time. Grasping that, but it's true. You know the slow and steady turtle wins.

Yeah. Compounding is our friend.

Exactly. Very good point. Yeah.

Dave: [00:41:35] Thank you,

Andrew: [00:41:36] Brendan, before we let you go, I've been dying to ask this,g to put you on the spot and ask you to give us a score. Maybe one to 10, maybe not an ESG score, but a tasty score. Fisherman's Wharf, clamshell. One to 10. What are your thoughts?

Well, it depends on where you're going to get it. In fisherman's Wharf. I would Give

us a couple of recommendations next time. One of us is in Cali.

Brendan: [00:41:58] Well, you got, you got Boudin's famous, that's the sourdough bread, you know, famous sourdough bread manufacturer.

And they produce a pretty good bowl of chowder. I'll be honest. It Fisherman's Wharf. It gets a little crazy around there with the number of people. And so I think local is mostly, yeah. Don't go in that general direction, but if you guys ever do find yourselves coming to the bay area, let me know.

I got plenty of restaurant recommendations that I can issue.

Dave: [00:42:24] Awesome. Well, we would love that.

Brendan: [00:42:27] Great.

Dave: [00:42:29] All right. Well, we really, really appreciate you taking the time to come and talk to us and help educate us as well as our listeners. Cause you, you, you dropped a lot of great knowledge on us, especially about all the ESG and air and everything about that.

I know that really helped educate me a lot. So was there, I guess, where could people find you if they want to learn more about what you're doing and what Personal Capital is doing, where, where could they go?

Brendan: [00:42:50] Yeah. You know, just Personal Capital. You know, just go there, you can go to our website, and I mean, you can download our entire methodology for our socially responsible ESG offering to see exactly how we build that portfolio.

And I mean, it's, I got to say it, you know, even if you don't become a personal capital client, it is free to sign up for the financial dashboard and. A really, really powerful tool to help kind of establishment where you're at in your financial life and kind of how you need to get where you're going. So I would suggest at least doing that.

Okay. Awesome. Well, thank you very much for coming and talking to us. I really, really appreciate it. And I know you have a little one, so I know you're taking time away from spending with them, and we do appreciate you taking the time to talk to us tonight.

All right. I really appreciate it, too, guys. It was a pleasure speaking with you both.

Dave: [00:43:36] Thank you very much.

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