Scott Hansen on Fiduciary Responsibility and Financial Planning for Beginners

Dave [00:00:00]:

All right, folks, welcome to Investing for Beginners podcast. Today we have a very fun, special show. We have Scott Hansen with us today. He is the co founder and vice chair of all Worth Financial. He also is a co host of the Money Matters radio show and podcast. They've been doing it longer than we have. So smart guy is going to be a lot of fun. And let's, I guess, dive in with Scott.

Dave [00:00:21]:

Can you tell us a little bit about yourself? Like, what did you want to be when you grow up and how did you get into fighting?

Scott [00:00:27]:

You said smart guy, and I'm not sure how smart I am, but I try to surround myself with smart people. That's what works in my life. You know, it's funny, I, I didn't actually think I was going to get in this profession. I was a tree trimmer as a young man. I had a tree trimming business and it took me four years to get through junior college. And then I realized that I needed to do something different with my life. And so finished up school and got into financial planning. But just because I was always fascinated with the financial markets, math comes easy for me.

Scott [00:00:54]:

And I really enjoy people. And it seemed like just kind of the perfect marriage between working with people, helping people and the financial markets. And so I started in this industry in July of 1990 and still at it today.

Dave [00:01:08]:

Wow. Okay. You've seen some ups and downs in the market through your career, haven't you?

Scott [00:01:12]:

And it's very helpful, frankly, because I've lived through so many bear markets and corrections and all that, that just doesn't faze me. Like all the news cycle that investors get so worked up over and nervous about and what's the Fed going to do? And it's all noise in the long term. It really is. And the more investors pay attention to the news of the day, the worse they're going to do as investors and the more they can just kind of ignore it and stick to good long term fundamental planning techniques, the better they're going to do.

Dave [00:01:40]:

Yeah, exactly. And it's funny, I'm a big fan of history and I love reading through older financial histories. And like I was reading, not reading.

Scott [00:01:49]:

How wrong everybody is, right.

Dave [00:01:51]:

I was browsing through purity analysis and some of the concerns that people had back in 1951. If you don't put the year in them and you're, and you just write them down, they're exactly the same things we're having now, political instability division in the country, just all these crazy things. They're like, that was from 1951 it has been.

Scott [00:02:10]:

Yeah. The world's always been a little crazy. Congress has always been nuts. I mean, just different flavors, I think.

Dave [00:02:17]:

Yeah, yeah, for sure.

Scott [00:02:18]:

And it's funny, you're talking like, I used to own a mutual fund. This is a long time ago, but I owned it much longer than I should have just because I appreciated the annual reports, because it would say their top ten investment performances, the stocks, and they all home runs. Fantastic. And then they had the bottom ten bankrupt, bankrupt, bankrupt receivership. And I thought this, the same amount of analysis went into picking the top ten as when the bottom ten, the same team.

Dave [00:02:47]:

So you're saying their track record was.

Scott [00:02:49]:

Like, well, that's just how it works, right? I mean, if you're trying to pick stocks, they're going to. You better be broadly diversified if you're picking individual stocks, because good luck to you.

Dave [00:02:58]:

Yeah, for sure. All right, so I guess one of the things that you wanted to talk about today, and I think it's really interesting, is you have a lot of passion about the danger of financial products. And I guess maybe let's talk about what are our financial products? And then maybe we can kind of dive into how they could be a problem.

Scott [00:03:16]:

That's funny. My longtime business partner, my co host of our podcast is if we were, the food industry would all be dead. Like the financial services industry, we have a poor reputation because it's well earned. And I think there's a lot of great financial advisors out there, great advisors that are independent fiduciaries. There's great advisors that are with the big warehouses, the big Wall street firms. I think the majority of advisors take the time to get educated, put their clients interest ahead of their own. But there's clearly a number, a large percentage that are unethical, inept, and maybe both. And so it's important for people to understand the differences between those and the issue I have with products.

Scott [00:03:55]:

It's really about how they're distributed and the commissions that get paid to brokers and insurance agents, because it's a tremendous conflict. And historically, this is how Wall street worked, right? It was every stock brokers got paid a commission and they'd call their clients, hey, why don't buy 100 shares of IBM or whatever it was back in the day? And that's how they underway. And today most advisors are on a more of a fee basis. A client will pay an advisor, maybe it's 1% a year. And so the advisor and the client, although there's still some conflicts that exist, they clearly, most of those conflicts are eliminated. And most advisors, because they're paid on a fee basis on long term success, they're going to go out in the marketplace and find what they think are the best financial products for the client because their interests are aligned. And when you've got financial products that pay somebody a commission to put a client into a certain product, right off the bat, they're not going to be able to see things clearly because they've got this conflict, particularly if the, say someone's got financial stresses at home and they've got to make the mortgage payment or the kids tuition or whatever it might be, and they're looking at this person with 100 grand that they want to invest somewhere, and they think, hmm, I could put them in this overpriced annuity and make myself an 8% commission and take care of my financial worries for the next few weeks. And that's my problem I have with some of these products out there, equity index annuities, actually annuities in general.

Scott [00:05:14]:

While there's clearly a place for them, I see they're so miss sold and misunderstood that we'd probably be better off if they didn't even exist. I kind of feel the same way about permanent life insurance, whole life insurance, universal life insurance. Clearly there's a place for those products, and maybe for someone with hundreds of millions of dollars. So whole life policy from estate tax planning purposes might make some sense, but for the average Americans, that we only need insurance for a term of time, typically why we're raising our kids, that sort of thing. And so these products, again, they have these huge commissions they pay the agents, and so the agents are conflicted, and what are they going to recommend? So that's my problem with some of these products that are out there.

Dave [00:05:49]:

No, that makes a lot of sense. All right, so there's a lot to unpack there. So let's back up for just a second. First of all, I guess, could you explain to my listeners what a fiduciary is?

Scott [00:05:59]:

Well, fiduciary, it's a legal term which states that a business or an individual has a legal obligation, a legal duty to put their clients interest ahead of their own. Right. So if someone is acting as a fiduciary, which is registered investment advisory firms, their fiduciaries, by their structure, they have a legal obligation to put their clients interest ahead of their own. Now, if you take some kind of a traditional old Wall street brokerage firm, they didn't have a fiduciary obligation. They had what's called a suitability requirement. So as long as a product is suitable for somebody, so maybe this product a would be great for them. Product B is close enough. I get paid more in product B that's suitable enough, that's going to work fine.

Scott [00:06:36]:

That kind of worked in some of the old traditional brokerage model in the fiduciary world, which is investment advisors. And now with the Department of Labor, just put some new regulations on retirement accounts. The advisors have a legal obligation to put their clients interest ahead of their own, which is obviously a good thing.

Dave [00:06:52]:

Yeah, for sure. So I guess, how would like an outsider to this industry know who's a fiduciary and who is?

Scott [00:06:58]:

Yeah, that's a great question. And Dave, seems like, I mean, every couple months I read a story about someone getting taken advantage of by some quote unquote, financial advisor, and I'm thinking they would have just done the most basic background check. They would have seen the red flags from the self. So all someone has to do is Google Broker check. Just also, if your listeners just remember, broker check. Just Google Broker check. And you could put in the name of an individual or the name of a firm and it'll tell you first of all important, like what kind of disciplinary actions have there been against individual affirm and what kind of sanctions might have there been, or fines, or has been any settlements, all that kind of court cases. And so it's, you can clearly see that.

Scott [00:07:37]:

And so you'll see if there's suddenly see that somebody is no longer registered, for example, and there's still be tenant like they are. Well, that's obviously a red flag. And so that broker check. And if a firm is a registered investment advisor and RA, they are a fiduciary by definition, the way they're structured. It's a fiduciary if someone is a broker dealer, where you see something that says security is offered through, that means that they are a traditional broker and they are not subject to the fiduciary rule, but they're subject to more of the suitability. Having said that, if an advisor is a certified financial planner, they have signed a pledge and made a pledge with the CFP board stating that they will act as a fiduciary at all times, regardless of what kind of business structure they're under. So a CFP should be acting as a fiduciary at all times.

Dave [00:08:26]:

Okay. All right. That makes a lot of sense. So like, do you feel like you would be safer? Like, I used to work at Wells Fargo and we had financial advisors in our branches and would they, if you walked in and wanted to work with Wells Fargo or Bank of America, would you feel like that is a more, I guess, secure way of knowing that they're going to be a fiduciary or.

Scott [00:08:48]:

I don't want to single out any particular bank, whether it's Wells Fargo or Bank of America. But these large banks have two different branches of their wealth advisors. Okay? So, and a lot of them came together through mergers over the years. And so they emerged in these brokerage firms that had a different business model than their branch brokers. So the branch broker is typically one. And my challenge, here's why I don't like this model. And I think the banks have been, it's been very frustrating for me to watch, because these branch brokers, they tend to work on a commission most of the time. They'll get, they'll get a commission if they sell a product.

Scott [00:09:20]:

Now, they might also recommend some managed money where they're going to get some fee, whatnot. But they tend not to stay very long either. So you'll have a branch broker who's there, and then four years later, someone else is there. And my real issue with them is these branch brokers might sell a particular product. Maybe the product's okay, maybe it's suitable, but then the client comes in a few years later, they've got some questions, whatnot. That branch broker's moved on somewhere else. There's a new branch broker there that's only going to get compensated if something new is sold. And so then I've seen just kind of a churn that takes place, and they move someone out of one product into another.

Scott [00:09:53]:

And that's my challenge with it the other side of the house, these old kind of Wall street firms. And as an example, bank of America bought Merrill lynch during the financial crisis. So that's kind of the old Merrill. Well, I think they're still branded as Merrill lynch, but that's all part of bank America. They have a different business model that, not always acting as a fiduciary, just the way they're structured. But I think it would be at least more suitable for the typical investor than the branch broker model.

Dave [00:10:17]:

Right. Well, by all means, feel free to throw Wells Fargo under the bus, because I do all the time. I work for them. So I feel like I have the, I was there at the tail end of the whole crisis or the other, and I saw firsthand everything that was going on in the branches, and it was rotten to the core. And so I'm glad I don't work there anymore.

Scott [00:10:37]:

I recall even myself going outside, been banking with bank. You know, when you have your banking checking, it's almost so hard to move. It's like they got to really abuse me before I'm going to leave Wells Fargo. And I was, I was in a branch, and the teller said something about, this is right during the time right before everything came out. But I knew something was weird because she said, it seems like you have too much money in that account, and I was underneath the insured limits. She says, it would really make sense for you to open up another account. And I said, why? Well, it's just safer that way. And I looked at safe like it was the strangest thing.

Scott [00:11:08]:

And then a month later comes out that they've been opening all these accounts that were unnecessary.

Dave [00:11:13]:

Yeah, that was part of the mantra. Yeah, that was definitely part of the mantra. They wanted to get as many, many of their tentacles into you as they could, because their motto was that people had longer relationships with their bank than they did with their significant other.

Scott [00:11:28]:

Yeah, that's actually, I guess, bank of America. Before I met my wife, she was Wells Fargo. And of course, she always wins. And that's why we've been a Wells Fargo family for 37 years.

Dave [00:11:38]:

That's why you're still married. Smart man. See, I told you we're smart. So I guess the next question I have is, what kinds of questions should somebody ask when they're sitting down with an advisor to a see if what they're trying to suggest to them or air quote sell them is the right product for them and. Or if their interests are aligned?

Scott [00:12:01]:

Yeah, and before I answer that question, Dave, I think it's important for folks to know that there's a growing group of advisors that discharge fee, an hourly fee, a fee for financial plan, a subscription. For example, there's an organization called facet wealth, not affiliated with them whatsoever. I just kind of admire their business model, and the reason I like it is they can care less how much money somebody has. Literally can care less. It's all about the complexity of the financial planning and what they charge somebody, and they get all set up with a certified financial planner. And I think it's actually a great model, particularly for people who are getting started out. Maybe they're comfortable managing their own money, but they want some planning. So just doing a fee for plan, I think, sometimes makes some sense, particularly if somebody is like, I'm not quite sure, like, maybe someone's moving to retirement.

Scott [00:12:43]:

They know things are complex. They're not quite sure. They want to hand everything over to an advisor. So saying, have an advisor say, how about you just do a financial plan for me, I'll pay a fee. And then with that you can see exactly all the, where an advisor may or may not be able to add some value, and then you can make an informed decision on whether you should hire that advisor or not. But I think some of the things to look for is, first of all, like, obviously, what's their education background? What kind of experience do they have? Those are kind of some basic ones, but, but I think also is, are they a fiduciary understanding how they get compensated? Those are important questions. But it's hiring an advisor. When you have an advisor, a good relationship is one built on trust.

Scott [00:13:20]:

And so if someone's going to use an advisor, it's got to be someone they like and they can trust. They don't have to agree with them on everything or her and everything but having some affinity there. So if it were me interviewing an advisor, I probably ask some real personal questions about their life, their values. I might ask them what, tell me about some money mistakes you've made personally just to have them see. Just see if they're open and honest. Because if they're not going to be open and honest with me about their life, then I can't trust them, right? And if they're one who, here's an open book, then I could fully trust that person. So I actually think some of those kind of questions are important. And the reason trust matters, I talk, one of the things, we talk to our advisors all the time.

Scott [00:13:53]:

It's like, why it's so important to build these relationships where people trust you. Because the longer I'm in this industry, the more I'm convinced that our, the greatest value we provide is keeping people from making mistakes from which they cannot recover. And it's either, maybe it's during when things are going hot and they're like, oh, maybe I should buy some Tesla stock, because look how well it's done. And they take all their portfolio and put it all in one company, or bear market continues on week after week after week after week, and they finally said, that's it, I can't take it anymore. I got to sell. It's those sort of things. And so when that relationship is deep and the trust is there, my experience is that client will take the advice from the advisor and will follow the advice even if they emotionally don't feel good about it because they're scared to death about what the financial markets or they don't even quite understand it. They're going to trust that advisor.

Scott [00:14:35]:

So having that, those deep relationships are vital.

Dave [00:14:38]:

Yeah, I would 100% agree with that. I think it's the same when you go to a doctor, right? When you're sitting down with your doctor, if you don't trust what they're telling you, then you want to cut me open.

Scott [00:14:47]:

No, it's exactly right. I mean, it's funny, I actually pay a subscription to a doctor. She's not really quite concierge medicine, because this is the kind of medicine she practices. I pay an extra fee each year just so I know that I can have a little face to face time with her. I'm healthy. But I realize at some point in time something's going to go south on me, and I want an advocate. I'm in on my behalf. So some of the kind of relationship.

Scott [00:15:09]:

And if I didn't trust her and know her and when she's trying to tell me, here's a way to deal with my issue, I might say I need a second opinion.

Dave [00:15:17]:

Right, right, exactly. So we talked about a few of the products. Could you tell me, you mentioned annuities, and that's not something, frankly, I'm super aware of. And maybe you could help educate us a little bit on annuities. I know it's a bit of a complicated subject.

Scott [00:15:31]:

Yeah, it is. There's two real forms of an annuity is just that. By definition, it's a series of payments, right? So if someone retires from, let's say, the federal government, state government, they get a pension, that's a lifetime annuity. And someone in the marketplace, and corporations used to have that a lot for their employees, and they've all got rid of them and replaced them with 401 ks for the most part. But somebody can take a lump sum of money and buy themselves an annuity, like a pension at retirement time, or actually at any age, and they could do it in the marketplace. They can do it with a charity, where the charity ends up getting some of the proceeds from it. So that's what a traditional annuity is. And sometimes they make tremendous sense.

Scott [00:16:05]:

If someone has no other guaranteed fixed income and they want that, those sort of products can make some sense. The other cabinet annuities, it's what they're called deferred annuities. And these are the annuities that are mostly sold. And the ones that are mostly sold today are these what are called equity index annuities. And they're sold a lot by insurance agents because an insurance agent does not have to be securities licensed to sell them, nor do they have to be a registered investment advisor. Just by being licensed to sell life insurance, they can sell these annuities and tell their clients, their customers, I should say, that they're going to get market returns equivalent to this s and P 500 with limited downside. What ends up happening is somebody, the insurance company takes this money, there's an insurance premium, tells the client, you've got ten years before you can take all the money out. You got these surrender penalties if you want to pull your money out early.

Scott [00:16:58]:

They hand the insurance agent a big commission check. They're bringing them the business. Then they go in and invest the vast majority in bonds, government bonds and safe bonds, mortgage bonds and whatnot, and then take a little bit and use options on the S and P 500. Okay? This is something that any individual can build on their own if they really wanted to. And then over time, when they say, look, if the stock market goes up, whatever goes up, you're going to participate in that. There's always these limitations, though. You're going to only get a cap at this much per year, or only 60% of the upswing and not the dividends. And there are all these limits.

Scott [00:17:29]:

There's no such thing as a free lunch, right?

Dave [00:17:31]:

No.

Scott [00:17:32]:

I mean, if there's anything important for investors to always remember, there is no such thing as a free lunch. So when insurance companies telling you we're going to give you stock market returns with no downside, something like this isn't manna from heaven. Right? Like what's actually happening here. So you're not going to get anything close to stock market returns? Yes. You'll get some returns that somewhat linked to the stock market. Yes, you'll have some downside protection, but the return you would receive on these is far inferior to what you get if you just owned a total market fund or something along those lines. I actually don't see any reason why equity index annuities exist in the marketplace. I don't know why the regulators don't require at least a securities license, because these insurance agents, I said earlier, there's some that are inept.

Scott [00:18:15]:

I just don't think they're educated. There's a hammer. Everything looks like a nail. Right. So that's the only investment product that you know and are licensed to sell. Well, that's all you're going to recommend to your customers, right?

Dave [00:18:25]:

Right. And, you know, it sounds like it's far more lucrative for the seller than the person buying.

Scott [00:18:31]:

What do we call high YTBS yield to brokers.

Dave [00:18:35]:

Okay.

Scott [00:18:35]:

Yeah. There are some other kinds of annuities. There are variable annuities, and there's some other nuances out there that sometimes they make some sense. We've recommended to some clients over my 30 some years. I've recommended them at times. There was actually about 20 years ago that there's a certain type that were mispriced in the marketplace, and we took advantage of it for some clients. But, I mean, we haven't recommended them in years just because of the way they're structured now. And for the most part, people should just stay away from them, unless it's a fiduciary advisor that you really know and trust and you've been working with, and they say, hey, for some piece of your portfolio, I think this might make some sense then.

Scott [00:19:08]:

Might make some sense other than that I'd just stay away from the products entirely.

Dave [00:19:11]:

Yeah. So I've seen annuity salespeople, I've seen mutual fund people. I've never seen index ETF salespeople. Do those exist as well?

Scott [00:19:21]:

When you say sale, selling to the end customer.

Dave [00:19:24]:

No, selling to the financial advisor.

Scott [00:19:26]:

Oh, yeah. There's a whole. Oh, yeah, so Vanguard has a whole group of wholesale. They're called, they're called wholesalers. It's no different than the supermarket. Right. You go into the supermarket and they have the end cap. I think most of us kind of understand those end caps, that Pepsi pays extra to have the Pepsi bottles at the end of the aisle there.

Scott [00:19:41]:

And so people grab them. If, unless someone wants to pay a shelving fee for the supermarket. That's bottom of the. That kind of crap exists in the financial services industry as well.

Dave [00:19:50]:

Wow.

Scott [00:19:50]:

There's all these pay to plays, and companies get really clever about kind of trying to disguise them, but that stuff exists as well. And whether it's vanguard or Blackrock or State street, they all have their team of wholesalers. That, and I'm not saying they all do nefarious things on shelving spaces, but they all exist, and the industry still has a way to go to clean itself up.

Dave [00:20:09]:

Yeah. Wow. Sounds like it. Okay. I was not aware that the, that Vanguard had an army out there selling.

Scott [00:20:14]:

Oh, yeah, I see them. I go to conferences. There they are. They work with Vanguard. They've got their booth at the conferences from a fiduciary advisor. Like, if I go to these conferences and I want to learn about some different products and whatnot, I'm glad that Vanguard's there because I can kind of talk to him about some of the nuances with their products versus somebody else. And so because I'm a fiduciary, a fee based advisor, I'm totally agnostic about whether I use vanguard or State street or blackrock. Like, it doesn't really matter.

Scott [00:20:39]:

It's whatever's going to be the best for the client.

Dave [00:20:41]:

Right. Right. That makes a lot of sense.

Scott [00:20:43]:

Let's say have a really nice steak dinner and want to. Kidding, joking.

Dave [00:20:48]:

Nice glass of red wine.

Scott [00:20:49]:

That's right. Then all that maybe made all the, all our clients money to that front. No.

Dave [00:20:54]:

Right. So you mentioned a little bit ago that there were some, there was a new law that came on the books. Can you tell us about that?

Scott [00:21:02]:

Yeah, the Department of Labor, which is interesting. That's in the investment realm. But you know, most of us have a 401k through our employer. Right. And we have a chance to take some money out of our paycheck each month and go through this four hundred one k. And the Department of Labor has overseen the 401k plans and have told employers, look, you need to act as a fiduciary to these plans. You need to make sure you put your employees interest ahead of your own interest. And we've seen companies get slapped in the past, but maybe they have too much of their own stock that they have recommended employees.

Scott [00:21:32]:

If you remember Enron, 20 years ago, people lost money because they owned Enron stock in their 401k. Or like they want to make sure that, I just talked about kind of that shelving space and mutual, they want to make sure none of that goes on with 401 ks because it could otherwise. Right. And so the Department of Labor has been overseeing the 401K space for decades now. They just released a new rule in the last couple of weeks. They've been working on it for a decade. Maybe now they're going to oversee any IRA that is funded from a 401k. So if you leave your employer, good chance you're going to take your 401k, move it to an IRA.

Scott [00:22:02]:

Those iras now also today going forward are going to have to be managed with a fiduciary mindset. So even that kind of broker or that insurance agent I talked about, theyre going to have to make sure that whatever they recommend is in their clients best interest, not just suitable. So its going to change the game a bit on some of these rollovers, I think well see less of these equity index annuities sold to kind of unsuspecting younger people tend to be, or people without huge assets and first exposure. And the challenge with small investors is it's hard to get. Take someone who's an experienced financial advisor, has been doing this 10, 15, 20 years. They've got a group of clients, they're making a good living. Their clients tend to have quite a few assets saved. It's hard for somebody without a lot of money to hire that person.

Scott [00:22:49]:

That's just reality. Right. And so what ends up happening, unfortunately, is some of these people with smaller balances get maybe the rookie advisor, or it tends to be the advisor that's selling a financial product and earn a commission because they can get six or 8% commission. That sounds a lot better than 1% a year.

Dave [00:23:08]:

Right.

Scott [00:23:08]:

So that's why I actually think that this kind of a subscription model or a fee based financial plan model, I think makes sense for particularly people with. Without millions of dollars in retirement savings.

Dave [00:23:18]:

Right. So that kind of segued into the next question I had for you. So how should a smaller investor look for advisors, and how can they find ones they can afford or even if it should be somebody they should work with?

Scott [00:23:34]:

And I think a lot of people, if you ask the typical person, what's a financial advisor do? They're going to say, well, they build investment portfolios and they make sure that you're in the market when things go up and get you out of the market and things go down. A good financial planner, good financial advisor, it's really about helping you get clarity on what it is you're trying to accomplish with your finances. So maybe it's retirement, maybe it's helping for your kids education, maybe it's a second home, whatever those financial goals you're shooting for. And then it's navigating not only the investments out there, but how we get into those investments. So what do we do with our 401k? Do we use a Roth? Do we use some after tax dollars? We use a brokerage account, all those various things, and look at things through a tax lens as well. So it's not just the investments, but it's, it's overall financial planning, including taxes, because that's a. Obviously, it's a big piece of our income can go to the tax man if we're not careful. So people without a lot of money, really the best thing is to use a financial advisor that either charges an hourly rate or subscription rate.

Scott [00:24:32]:

Someone who's not based, not a fee based advisor. You're not really wanting someone to manage your money as much as you want someone to help you with the financial plan. And the investment part, frankly, is a bit of the easy part. It's the financial planning that's a little more nuanced and be more complex. And so I think if we look over the next ten to 20 years, we'll see more and more. Right now, I mean, the reality is most good financial advisors, they've got their clients paying them 1%. Like, why would I go from this model to something where I'm getting dollar 39 a month? So no one's flocking to that kind of new model, but that's where the industry's headed long term, and there's some players out there and some advisors out there today that are operating that way. And I think it'll be really helpful.

Scott [00:25:11]:

When I got in this industry, 1990, I had this young and idealistic, but I thought, oh, I'm going to help all these people with their finances and make sure they make good choices and don't have the wrong kind of mortgage and make sure that they save for their cars instead of leasing them and all that kind of good stuff. Then the reality is I'm just being very transparent. The reality is I would have starved because people are young, they don't have any extra money. They don't want to pay for financial advisor. And so what ends up happening is advisors go to work with the people that have the money because that's, that world is changing. And maybe that's why I get kind of excited about new model, because I think for younger advisors, advisors of any age, frankly, it gives them an opportunity to work with people that maybe really need the advice the most. I mean, if someone's got $50 million and they hired advisor, like, how much is that advisors are going to make? They're not going to make any difference in that person's life. Right.

Scott [00:26:01]:

Just right. The rounding error on a spreadsheet. But someone is more modest means who's working hard and saving and trying to do the right thing, they could have a tremendous impact on those people.

Dave [00:26:11]:

Right. What would you tell somebody who wanted to become a financial advisor? Like what route or what?

Scott [00:26:17]:

It's a great profession. I really think it's a great profession. And one of the nice things about it, like, when I started, it was all, you eat what you kill, right? So, I mean, I worked for a company that, here's your phone, and make some calls and cold calling and trying to find a client. And those that couldn't find a client, you're out. Like, you don't have a job, and maybe you go work in the home office or something, right? The industry's changed quite dramatically. There's a lot of larger national advisory firms like Allworth is where we don't expect all of our advisors to be good at selling business development. They're good financial planners. And so just the way of like, think about a big four accounting firm will hire maybe some of the best kids out of accounting school and, and train them, realizing that some are going to stick around for long term and some aren't.

Scott [00:26:57]:

But they don't, certainly don't expect a 22 year old to go out and land a bunch of new clients. They're hired to help work on a caseload. And the advice industry is that way quite a bit. Now it's moving that way. And so there's a lot of different career opportunities for people to be financial advisors that aren't necessarily the kind of person who loves going to chamber of commerce meetings and buttering people up and carrying a business card that becomes a sponge, so to speak. So I think people that gravitate to this profession and are good at this profession are ones that really enjoy working with people enjoy kind of a sales process and I mean sales process about getting people to kind of move to where they need to go. You need to be pretty good about educating and explaining and convincing and understandably the nuance that maybe the client should go from where they are to where I want them to, but I'm never going to get them there quite a bit. So let's see how close we can get them to where they need to be.

Scott [00:27:49]:

Those people that kind of enjoy that process with people do tend to do very well, and they obviously have to be pretty good with math. The struggle for you, it's not a good profession, but I think it's, anyone I've talked to have been in the profession for a number of years. Really. They really enjoy it. It's stressful. And when the markets are doing well, we tend to be, we work less and we're overpaid. And when the markets are going south, we work like crazy and our revenues shrink and the profits shrink. And there's, it's not fun on the financial end either.

Scott [00:28:17]:

So it's fun. It's kind of funny. With the time you work a lot is when you get paid less than the time you work. You don't work as much, you get paid more. You got to realize that, too. It comes with a territory.

Dave [00:28:25]:

Yeah, for sure. All right, so I got some questions for you that are things that I'm curious about and questions that we get asked on our podcast all the time. So here's the big one that we get all the time. So how do you suggest to somebody that they invest a lump sum? Let's say they come into ten, $20,000. How would you suggest they go out there and put that money to work?

Scott [00:28:45]:

Usually just throw it in. I mean, markets go up more than they go down.

Dave [00:28:49]:

Yep.

Scott [00:28:49]:

So you can dollar cost average, which is not designed, which means you put in a little bit each month for maybe a twelve year, twelve month period, or 36 month or whatever you want to show. It's designed to minimize risk a bit, but it's not designed to increase returns. And markets go up more than they go down. If someone feels uneasy about it, then maybe break it up into a couple slots or two or three different slots. And always remember this, anytime you buy something in the market, the next day it goes down. I don't know if that's actually factual, but it is for me. It seems that way. Right?

Dave [00:29:20]:

Oh, it is for me.

Scott [00:29:21]:

Okay. Right. It just seems like anytime you invest, expect it to go down the next day. Like that's. It's just automatic. And so investments are really based on time horizon. So if. If we're looking at a short term time horizon, you're not going to want to invest it at all.

Scott [00:29:34]:

If some money that's needed within the next five years shouldn't be invested, it should be in cash. And if it's invested in anything, maybe a short term bond or bond fund, but clearly not in stocks or equities of any kind. And if it's money that's long term, if you're 35 years old and you've got 20 grand that you're going to want to set aside for retirement, like, what it's worth tomorrow is irrelevant. Like you care what it's worth when you're 60, 65, that's what you're caring about. And so I'd say just get the money to work.

Dave [00:29:59]:

Okay. What do you think would be better? If you're 27 years old, I know there's going to be other factors along with this, but if you're 27 and you have that twenty k and you want to put it in the market, would it be better to use a traditional or a Roth?

Scott [00:30:13]:

Roth. Okay, so, I mean, you can't put 20 grand directly into a roth, but let's say you're 27 years old and you've got, like, I remember talking to a young person earlier this year, they were able to fund a Roth for 2023 and a Roth for 2024 all the same day, right? Because you can do it by April 15 for the previous year. Beauty of the Roth is it's tax deferred. You can always take your principal out without any taxes or penalties. So if you put in five grand and two years later you need five grand back, you can get your five grand. And as long as you leave all the earnings in there to your retirement age, it's tax free. So anytime we have an opportunity to fund a Roth IRA. I'm a big fan of funding Roth IrAs.

Dave [00:30:51]:

Yeah, me, too. I'm curious, why doesn't Social Security get discussed enough as part of the financial plan? I just don't hear much about those.

Scott [00:31:01]:

Well, we do a lot with a big part of our. For someone younger, it's kind of like, why don't we plan without it and let's. Nobody knows where it's going. We know it's going to be insolvent. We all know that by 2032, 2033, whatever the year is, there's going to be an across the board 24% cut in benefits. Unless Congress steps in. Congress is not going to do anything until the final hour, maybe even weeks or months after something happens. Right.

Scott [00:31:29]:

Just how they operate. If I were a betting man, we're not going to see Congress slash benefits for the poor widow relying upon Social Security for 100% of her income. We're probably going to see reduction in benefits for Bill Gates. So I don't know where that line's going to be, but my gut tells me that in the future, those that have done a great job saving and have a lot of assets of retirement are going to have, at a minimum, reduced benefits, if not benefits eliminated altogether. They already do this, some in the form of taxation. So for those that have low income in retirement, they don't pay any taxes on their Social Security. For those that have a high income in retirement, 85% of the benefits become taxable. So the government gives you money on one hand and takes it away on the other, right?

Dave [00:32:10]:

No, that's the way they work. Right.

Scott [00:32:12]:

But if you can plan, if you can plan, if you're younger, if you can plan retirement and get to financial independence without relying upon the government's Social Security, fantastic. That's why I think it's a lot of the planning, particularly for younger people, if you're approaching retirement. So you're going to get some Social Security. Like, we need to make sure we plan that and figure out when's best the time receipt of that.

Dave [00:32:31]:

That makes a lot of sense. Okay, so how about this scenario? How do you feel about. Do you feel like we're in a retirement crisis, like, for people my age? Younger? I'm 57. So people my age, as am I. Yeah. Okay. So do you feel like there's kind of a growing crisis with people being able to retire the way they want to?

Scott [00:32:56]:

Well, you just threw in that last caveat the way they want to. So, yes, there's a crisis for all of us. It's funny, I think the concept of retirement is changing. It's clearly changed in the last three decades I've been in this industry. In an ideal situation, we reach a point where, first of all, we have to take ownership and responsibility for our own lives. We have to take ownership of our career. We have to take ownership of our finances. We have to take ownership of our savings and investing.

Scott [00:33:24]:

In an ideal situation, we get to a point in life where we have financial independence, where work is an option and not an obligation. That's kind of the ideal. Now, I don't think for most Americans we're not going to ever achieve that, at least not until we're somewhat old. But I think it's also important to have a different kind of viewpoint on what does retirement mean? Because we're looking at today, people are retiring later and later. And it's really interesting, Dave, if you look at the higher one's education, the more likely they are to work beyond retirement age. And the higher someone's income is in wealth, the more likely they are to continue to work in retirement age. So I think it's a different, it's kind of a mind if you're digging ditches for a living, you're not going to be able to do that until you're 75, clearly. But if you have a kind of career that is much more intellectual as opposed to physical labor, for many people, there's no reason you can't do some sort of work beyond retirement.

Scott [00:34:14]:

So I think what we'll see going forward is people designing those retirement years maybe a little bit differently. Well, maybe work is still some piece of their retirement, maybe on their own time, in their own terms, because I don't think most Americans are going to have enough money to just never work again at age 62. There's just, I mean, all those government benefits. Eventually, at some point in time, the government's not going to be able to keep printing money. I don't know when that is. I thought it was about 10 trillion ago. But at some point in time, we will hit a tipping point.

Dave [00:34:43]:

Yep. Yep, exactly. And I guess, what are your thoughts on the idea of where I feel like we're going to live longer after retirement than my grandparents did and probably more than my parents did because I feel like we're living longer. So do you think that changes the way we approach it better?

Scott [00:35:03]:

Yeah. One, it means that we need more money saved up. Like this whole concept of draw down. People talk about drawing down your portfolio, but you better not be drawing down your portfolio until youre well into your eighties. You need to make sure that its continuing to grow just to keep pace with inflation. And I think a good financial plan is one that your estates going to continue to grow essentially in perpetuity because Im not one of these believers that singularity is going to happen next year and Im going to live to 180. Who knows what the future brings. Odds are im going to live much longer than my grandparents.

Scott [00:35:35]:

So I think we all need to plan for that. For sure. It's foolish not to, but it's also the whole concept of maybe we don't look at work as something we do between the ages of 20 and 65 or 60 or 55. It's kind of this whole concept of I don't read hear about as much anymore, but the fire, that whole financial independence. Retired early. I kind of quite understand that. Like, why don't you do something you really enjoy doing? Then it doesn't feel like work like, right.

Dave [00:36:01]:

Yeah. Which is what I do.

Scott [00:36:02]:

I don't, I don't ever want to retire. I'm 57. I've got, and I've worked on my own financial independence, so works an option and I, the whole concept to me personally, and there's others that feel differently, obviously, but I, I'm actually this weekend, I'm spending a weekend with my wife doing some planning on kind of trying to figure out what our next chapter should look like. And a good kind of part of that conversation is on, um, work, what kind of work I'm going to be doing.

Dave [00:36:26]:

Yeah. Yeah. That's awesome. What are your thoughts on 401 ks? Like, how important should they be in a person's retirement?

Scott [00:36:35]:

Jeff? I love them. I love them. And the reason I love them is money gets sucked out of your paycheck before you have a chance to spend it. Because there's always competing needs for your dollars, right. Your retirement savings never calls you says, hey, I need this or need that, but your kids might say, I need this or need that. There's always little league dues. I mean, there's so many things in life that need our finances, and frankly, there's never quite enough. Regardless of one's income.

Scott [00:37:01]:

There's always competing needs. And the thing about the 401K is the money gets yanked out of your paycheck before you have a chance to spend it on something. That's the most powerful thing about the, then there's some tax benefits to benefit to boot. So that's just a gravy in my opinion.

Dave [00:37:16]:

I think they're the most amazing thing. And we urge people, if you aren't investing in it, why aren't you? What are you doing?

Scott [00:37:21]:

Yeah, well, and if there's a match, you're being very foolish by not doing the minimum of the match.

Dave [00:37:26]:

Right.

Scott [00:37:26]:

That's just crazy. Like go borrow the money if you have to. It's free money.

Dave [00:37:30]:

Yeah, free money. And everybody and her brother would gladly pick up $100 on the sidewalk, but they won't invest in a 401K that will match their investment.

Scott [00:37:38]:

Well, that's why, I mean, I said people need to take responsibility for themselves. So the government's going to help a little with Social Security. Yes, we are paying into it, but it's up to you to take responsibility for your finances. Nobody cares about much about your money as you do or should. And some doing some basic things like the, it's never, there's never a good time to start savings. There's always competing financial need. I would think 401K is the best. Matter of fact, if I think about all the people that I've helped in the retirement process over the years move from workplace to retirement, the vast majority has been because of the, if the 401K wasn't there, I don't know where their savings would have come from because they probably wouldn't have been there, would have been spent.

Dave [00:38:17]:

Yeah. Yeah. That's awesome. All right, so kind of to wrap up, can you talk a little bit about your radio show and your podcast? Like, I know you guys been doing it for a while, so I guess what was the impetus to start it and why have you continued for so long?

Scott [00:38:31]:

Yeah, so we started on, on radio terrestrial radio almost, I think it was 29 years ago. 29 years ago. I've had a longtime business partner for 30 some years that we've worked together. And so it's, some have said it's kind of like a click, click and clack. If you remember those car talk guys on PBS, I get somewhat similar. We take calls. People call and ask their financial questions and that's always, I find the most interesting part of the program, but we've been doing it 28 years, all worth money matters. And then when the podcast industry started emerging, and I don't know, whoever was the first one to start distributing podcasts, we just went out on those platforms.

Scott [00:39:07]:

And so now we have many more podcast listeners than we have on trustor radio. AM radio is slowly dying. I think we all aware of that. I hardly ever listen to the radio anymore, and so we have a lot more podcasts, but anyone can find that wherever you get your podcast, all worth's money matters.

Dave [00:39:22]:

Okay, awesome. And I guess we haven't really talked about firm. So tell us about Allworth Financial.

Scott [00:39:29]:

Yeah, so we are a fee based fiduciary firm. We've got, I think, around 35 offices around the US. We've got 125 advisors, maybe a little bit more than that. Certified financial planners around the nation, we've grown in large part through partnerships. So independent firms have merged in with us over the years. They're able to get kind of broader range of support. So we've got, we have a whole tax team, part of all where it's to help with their financial planning and do tax returns. We have an insurance department to help analyze some of these products that people have been sold.

Scott [00:40:00]:

So we can, we can help in those things and estate planners on, on staff and whatnot to help with it. So it's kind of a whole area of financial planning. And that's awesome. And it's been a lot of fun. I'm at the stage in my career where I really enjoy helping out our younger career folks and our younger advisors. And, I mean, one of the things we hire kids, ride from college, and it's a five year path before they're a financial advisor on their own. And I feel really good about that.

Dave [00:40:25]:

Yeah, that's awesome. Awesome. I can imagine people like working for you. I think I would enjoy working for you.

Scott [00:40:30]:

Well, that's very kind of you. So you're welcome.

Dave [00:40:33]:

Welcome. So is there any places online that people could find you?

Scott [00:40:37]:

All worth financial.com. they just go to allworthfinancial.com. if they forget that, you know, moneymatters.com. moneymatters.com.

Dave [00:40:44]:

All right, awesome. I'm going to put all that stuff in the show notes so everybody will go with when they're listening and not driving, they can look up afterwards and check all those places out.

Scott [00:40:53]:

Well, thank you.

Dave [00:40:54]:

You're welcome. Well, Scott, this was a true pleasure. I really enjoyed it and I learned a lot. I know our listeners will as well. And I wanted to thank you for taking the time out of your busy day to come talk to us. We really do appreciate it.

Scott [00:41:05]:

Thank you. I really appreciate the opportunity myself. It's nice being with you.

Dave [00:41:07]:

Yeah, you're welcome. All right, folks. Well, with that, we'll go ahead and sign us off. You guys go out there and invest with a margin of safety. Emphasis on the safety. Have a great week, and we'll talk to you all next week. Bye.

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