Wes Gray, PhD - Alpha Architect - Transcript

Tim Mullooly: All right. Welcome back to Living With Money, this is Tim Mullooly. On today's episode I am joined by Dr. Wesley Gray. Do you like to go by Doctor or?

Wes: Not really. It makes me feel a little too important, so Wes is also good, definitely.

Tim Mullooly: Well Wes, thanks for coming on the show.

Wes: You got it. It's an honor to be here.

Tim Mullooly: Wes is the CEO of Alpha Architect, and we're going to get into everything that they do later on in the episode. But first, I just wanted to see if you could provide the listeners just with a quick background about yourself. How did you first get interested in finance, and your education growing up in that field?

Wes: Yeah, sure. I guess my interest in finance came super early. I used to live on a cattle ranch in the middle of nowhere in Colorado, and I was in this thing called 4-H where you raise animals and then go sell them at the fair. And I had one where I actually made two or three grand because people don't pay market prices, it's like a charitable deduction almost. And so I was probably 10, 11-years old, I had two or three grand, that's a lot of money. And my dad's like, "You're not allowed to spend this on Nintendo games or that kind of stuff." And my dad obviously didn't know anything about investing because he's a rancher, but my grandmother did. And I actually talked to her and she had me read The Intelligent Investor by Ben Graham.

So that was kind of my intro to it, and also just from growing up doing a lot of manual labor. I just got tired of doing manual labor, and my dad's like, "Well, you should probably go get smart." And this whole investing thing I just thought was fascinating because it was like, wow, you could make money, on money, and I don't have to dig ditches anymore out in the field and run irrigation lines. So that's honestly like a sick story, but that's why I got interested in finance. I thought it was a lot easier way to make money than the old-fashioned like dad-

Tim Mullooly: Take out the manual labor part of the equation.

Wes: Yeah, exactly. Then also, beyond that, I started getting obsessed with it because I got on to Ben Graham, I got into Warren Buffett, I read every book and everything you could get on those guys. I was just like, wow, this just makes so much sense to me. I want to do this. Then when I was going to college, I went to Penn and they had this thing called Wharton School which is like specialized business school. Did that and then also through that experience I actually became so interested in finance, beyond the fact that you could make money, I actually started liking it, like just as a subject. And I was like, wow, that would be really cool, you could be a professor. It seems like these professors just talk, and read about, and do research on finance, and they get paid for it. That seems like a good gig. So yeah, worked for a professor and then eventually went to do my PhD at Chicago.

Tim Mullooly: While you were at the University of Chicago, I read that you were studying under the Nobel Prize winners Eugene Fama and Richard Thaler, that's crazy that those two are there at the same time while you were there.

Wes: For context, that was in 2002 when they weren't as famous as they are now. Professor Fama would still definitely talk to me just because he's more still pure academic all of the time.

Tim Mullooly: Thaler's too much of a celebrity now?

Wes: Yeah, Professor Thaler's way above my pay grade. Because when I was in the program there he was not as famous, so he worked with me on my curriculum paper. But when I reentered the program, I left for a while, came back, he had written Nudge and he was a rock star, and he wasn't going to deal with PhD students that weren't 100% in his vein. So I ended up getting some other gentleman to be on my committee, but Fama stuck with me. So it was good experience for sure.

Tim Mullooly: Yeah. Were there any particular nuggets of information that you remember, either Fama or Thaler, anyone that you worked with at Chicago that kind of stuck out in your mind?

Wes: Chicago's a great place to obviously be a finance PhD student because every single place you look there's some famous person, where you're like, God, is there anyone that's not famous here? So it's really good place to just learn a lot from everyone. But I think honestly like the best lesson is actually probably from Eugene Fama and just because that guy is a workhorse man. Like every day he shows up at work like 6:00 AM and he's like grinding our research... The guy's just a maniac, and he runs the PhD course, so he's still highly engaged with like young students, like guys like me at the time. Still don't, but at the time definitely I didn't know anything. Like he'll still interact, help you on your paper. So I just saw just his work ethic and dedication to the art and the science of research was world class and just somehow was admired, and was definitely something I learned and took away from the school.

Tim Mullooly: And it's funny, I feel like a lot of times when I ask guests who have talked to someone that's well known in the industry like Eugene Fama or have talked to someone who has interviewed Warren Buffett or Charlie Munger, it's always kind of the same answer. It's like what stood out to you to them, and it's their work ethic, and their undying need to just keep learning and keep getting better. So that's interesting that it's kind of a common theme between all those big names.

Wes: Yeah. I think it makes sense too because in such a highly competitive world, you basically get ahead by showing up and grinding it out every day over a long time. And those small little marginal wins compound, and 30, 40 years you're like, wow, this guy's a billionaire or this guy's a Nobel Prize winner. But no one saw the 40 years of grinding it out every single day.

Tim Mullooly: Yeah, waking up early, going to bed late, putting in all the hours.

Wes: Yeah. In the service they call it Rise and Grind. Like you get up, and you just start grinding man, put your work in.

Tim Mullooly: It's like these people make it seem so easy but behind the scenes you don't know what they're doing, all the hard work.

Wes: Yeah. And the other thing you always hear, especially in like our businesses is 10 year overnight success because everyone's like, God, I want to go be an asset manager or an advisor or whatever. And because they see you like, wow, this person has $1 billion, I want to do that. But they didn't see the 10 years of grinding, like eating ramen noodles, hating your life, wondering if you're going to pay the next bill. So, these things always seem a lot easier after the fact than going through, just putting the time in on the work.

Tim Mullooly: Yeah, so you alluded to it before, you said before you finished your PhD, you took a few years off, and you actually joined the marines. Do you want to talk about that whole experience and kind of what made you want to do that and what that all was like for you?

Wes: Yes. So, I'd always wanted to do my service basically. So right after high school I almost joined but then got into college. I went to like a crappy public high school in California where I was like, hey, I'm at the margin a little bit smarter than most people, I should probably go represent for this crew. I should probably go to college because I go to college that's a good idea, so I'll postpone service. And then I was like, well I'll do it after college. But then I got directly into University of Chicago PhD Program, I was like, well, usually that doesn't happen, I'll just postpone it. And then I got to a stage where in the first two years of PhD program, they're just beating you up, killing you and you have to pass these things called your comps. It's like your two year compulsory exams. And I was seeing them myself, I was like, man, I'm 24 years old, it's now or never, I'm going to keep making the same excuse because if I graduate with a PhD from Chicago I'll probably going to-

Tim Mullooly: Then you get a job, then you postpone it even more, yeah.

Wes: And then I'll have a wife, then I'll have a kid. So I was like, you know, I just got to make it happen. And that's why I did I, I asked the PhD director like, "Hey, I got a special request, I want to take like a four year sabbatical, what do I got to do to make this happen?" She was like, "Well, never had that request before."

Tim Mullooly: I was going to ask, is that an unusual request for four years to take out there?

Wes: Yeah, It's usually you have a one year sabbatical that a lot of people take because they get burnout, and then you go to do something. So four year was definitely an unusual request. It turns out the PhD director's husband was in the navy for 20 years, so she was pretty amiable to the idea. And she's like, "Hey, if you go get your advisors to sign off, good to go, we'll do it." And I assume they probably just thought I'd never actually show back up but unfortunately for them I did. But yeah, overall being in the service is... I was specifically in the Marines, I was in officer ranks, I thought it was great. Like it definitely not for everyone, but when I was in from like 04 to 08, it was actually an important time because we were like fully engaged in combat, going to crazy places. So I just thought it was a great life experience and opportunity to kind of see the world and learn about how the other parts of the world work that aren't first world countries like living in the States basically.

Tim Mullooly: So what was that transition coming back from four years in the military to coming back and finishing up your PhD? Was that tough to kind of shake the military mindset and get back into the academic swing of things or did they bridge the gap between the two at all?

Wes: Yeah. No, not really. I remember like in my curriculum paper, there was a bunch of math in it, like calculus, and I literally just cannot read my own paper when I came back and I was like, oh my God. It was like starting from zero again. Like I had to remember how to take a derivative because I'm used to like taking apart an M4 and trying to shoot people, not like doing calculus-

Tim Mullooly: Looking at equations and stuff.

Wes: And so honestly I had to kind of redo. But it is like riding a bike and since if you learn it, it is deep storage there, it's just a matter of like training those neurons to fire back up. That was definitely difficult, but I thought it was good because I was ready to...

And I needed to kind of move from the service too because the other thing is you're like so wired in for survival. I would drive down the middle of the road, I used to be a humvee driver in Iraq, so I'd just do weird stuff that my wife would be like, "Dude, like you can't do that here anymore." So I had to kind of like untrain myself from being in like a combat mindset all the time and then also learn math and just become a civilian. And it was definitely challenging but it's just part of the deal and it's all good.

Tim Mullooly: So from being an officer to now you are the CEO of your own company, were there any similar like management style or like lessons that you learned over in Iraq that you took back and kind of employee now with your company?

Wes: Yeah. In the marines specifically, it's all about officers eat last and lead by example. So you've officers eat last ideas that you shouldn't be as a king, you should be the servant to your people and try to help the team win, and you're really just the ultimate team member not everyone is working for you, you're working for them so the team can win. So that's definitely one thing I try my best to work on, you know, not perfect. And then the other thing is just lead by example. So if you're going to ask somebody to do something, you don't just tell them to do it, but then you don't do it, especially if it sucks. So it's like, hey, go learn more or write a blog post or read these 10 academic papers. That's easy to say, but if you turn around and don't do it, don't understand it, usually people that are on your team are going to be like, well, this guy's, you know-

Tim Mullooly: He's not doing it so why am I going to do it?

Wes: Yeah, he's not doing it so why am I doing it ? So those are definitely kind of like just basic common sense leadership things you think most people would be like, well yeah of course but in the marines that's just beaten into your head a thousand fold.

Tim Mullooly: Yeah. I'm picturing that diagram that you see often in like management books where it's between a boss and a leader and you see like the boss shouting orders down at the employees, and the leader is down there with them like doing the task with them.

Wes: Yeah. And the idea is if you're being a leader, probably in the right way, it's actually the worst job because you're always working the hardest, getting in earliest, leaving latest, dealing with everyone's problems, and you always got to have a positive attitude because you can't show breakage. Someone's got to be the rock that's not stressed out and like worried because if you are as a leader is stressed out and worried, we'll guess what other people are going to do. So all the burden is on you, I think, if you're doing it right. So that's just part of the business of being in charge.

Tim Mullooly: Yeah. So when you came back from Iraq, you wrote a book called Embedded.

Wes: Yeah.

Tim Mullooly: And it's one of a handful of books that you've written, and we'll get to the other ones later on, but do you want to talk a little bit about why you wanted to write this book Embedded and what the main purpose of the book was?

Wes: Sure. So to this is a situation where, I don't remember the famous saying, but you know, when the facts change, I have the right to change my mind. It was the same sort of deal where, you know, that was at the time when we're doing the Iraq war stuff and like we were in Afghanistan, and I don't know if you remember, but like we had all these hearings, like Colin Powell, who I really respected, shows that little white powder and he's like, hey, we're all going to die, this is a war of survival. And me being very naive and not really understanding the intelligence apparatus or being skeptical what people have to say, I was like, oh man, this is like really important, we need to go do whatever they tell us to do, I'm in man, let's rock and roll.

And then what happened is I was on a military transition team where I was embedded with Iraqi battalion, and we were in charge of standing them up so we could stand down. And what's super unique about that position, especially how I went about is it's your embedded. So like you're living, eating, fighting, shooting with these guys every day, going on patrols, so you really start to get to learn the culture. And-

Tim Mullooly: And becoming one of them.

Wes: Exactly. And it's hard to recognize because we get framed being in America with a lot of things in the background that we just always take for granted, like people don't just pick up an AK and shoot you, that would be weird here, there, that's pretty normal, right? And so what I realized is, wow, this culture and the way these people think it's not bad, it's totally different.

They are tribal and survivalist, and all these things we're trying to do for them like bring them freedom, bring them X, Y or Z is insane. Like-

Tim Mullooly: Totally foreign to them probably, yeah.

Wes: It's totally foreign and it's never going to work anytime this century. It could work, but do we really want to invest a hundred years effort in the Middle East, burning $1 trillion in net present value of costs when we got tons of problems at home. And so it's one of those things where, you know, I'm a right winger by nature so that's kind of what the mantra was then, like hey, got to back the party. So I was in, but then unfortunately I saw the facts and so I had to write this book because I was like, dude, I got to share this reality with other people because there's probably a ton of people like me that kind of got brainwashed into thinking like war is good-

Tim Mullooly: Wouldn't second guess it.

Wes: Yeah, wouldn't second guess it. And so long story short, I needed to tell that story to make sure that other people may have the benefit of seeing another perspective on it through someone who's actually sitting there, dealing with these people every day. So that's why I wrote that one.

Tim Mullooly: Yeah, makes a lot of sense. Along the same lines though, to investing, having lived in a completely different culture and different parts of the world, has that over time kind of shifted the way you view international investing and international companies because if the cultures are so different in other countries, how can we properly evaluate these companies when certain things might matter more to them overseas than are important here?

Wes: So there's definitely some things there. I mean, one is corruption. We have corruption here, it's just a more professionalized through like lobbies and the government. So it is corruption, it's just we don't call that in here. But in other places of the world, corruption is just standard. It's not bad to them, it's just that's just how you get business done. Like I remember the guy that was like the money guy for our battalion, everyone knew he was a scoundrel and everyone knew he was taking 10% cut on the hay bales of money because it's a cash economy there, but everyone also knew that's why you want to be like him because you get the corruption cut. That's the reason you try to-

Tim Mullooly: It's just normal.

Wes: It's totally normal. So-

Tim Mullooly: And that's completely different from our culture.

Wes: Completely different from our culture. And so that's not necessarily bad or good, but there are certainly differences. Now, what I would say is, in general knowing that people are very different, have different systems of enterprise or what have you is one thing, but I think in the end it's all about incentives. So as long as an international country has some structure where there's some economic freedom and there's incentives because if you invest or work hard you can earn money, even if the frameworks may not as clean or good as it is here, I feel like in general we should be able to understand the basics of how those economies work. Clearly when you move to something like China where it's kind of market economy but also the government could just say, hey, guess what, we turned you off tomorrow, those sorts of things I just don't know how to understand fully and that's certainly an area where someone who was more in the weeds on it like I wish to quant. And we don't invest in China, concerned about, sorry. But there's definitely something there for sure, like in the frontier or in the worlds where it's more government controlled, I would want to think a little bit harder about those.

Tim Mullooly: Yeah, that's what I was going to ask. Companies like China and I know a handful of years ago, Russia shut their stock market or their exchange for like a week or so and you said you don't really invest in China and stuff like that. So apart from just avoiding those countries, is there any way to really like evaluate them? Kind of apples to oranges with like the US economy and the US stock market, is there any way to fairly evaluate those?

Wes: I don't know. There probably is. There's a bunch of academic papers on like political risk premium and everything and I don't remember how that literature works, but essentially one would expect that if you're going into like Venezuela where there's a X% chance that they just take over the oil industry from the private guys, well obviously there should be higher expected return by buying these sorts of things. So it's not something where I would say don't invest in these markets because they're too crazy, it's just that if you're going to invest in them, make sure the price you're paying is appropriate because you want to make sure that you pay a low enough price that you embed a higher expectation that will hopefully compensate you for the chance that you could lose everything. And you wouldn't want to go into like one of these economies and pay premium dollar for the oil company in Venezuela versus Exxon. That's probably a bad idea. And how someone does that, who knows? The more I'm in finance, the more it gets art versus science. So it's anyone's guess.

Tim Mullooly: You need to just kind of like adjust for risk

Wes: Adjust for the risk.

Tim Mullooly: Yeah, absolutely, whatever that means to you.

Wes: Yeah And the other lesson learned, and this is something that Meb always talks a lot about is historically there's always like a glamour boy country. It used to be the BRIC’s I don't know if you probably remember like EM, emerging markets, they were like the hottest thing ever, now, they're in the woodshed getting beat down. Everyone's like, oh go America we're everything, just put it all in the States. But I would just recommend that if you look at the history of worlds and economies and politics, like the one thing that's certain overall is version in the long haul. So, probably a diversified approach and being cognizant of prices or momentum, these sort of things are ways to potentially maneuver these changes that are inevitable in these parts of the world.

Tim Mullooly: And so let's shift gears towards Alpha Architect. Do you want to tell the listeners what the company does, how it got started and kind of what your mission is today?

Wes: Yeah, so I'll tell you the founding story here next, but real simply our mission is empower investors through education in order to develop sustainable investors just because as you know a lot of professionals in the business know, the main way you can win in financial markets is by being different, right? But being different hopefully in a smart way, not just like, hey, let's go buy Tesla because we're different. But doing things hopefully with, you know, a little more savvy than that I imagine by being able to stick to it. And our core belief and our core mission is we're going to focus on investor education, people that want to use our products and funds or what have you should go in with eyes wide open that here's what we're doing, here's the process, make sure you're highly informed about why we're doing what we're doing because, oh by the way, this is not going to work all the time, it's going to be painful, it's going to look crazy relative to more standard asset classes. That's our mission.

And then the starting on Alpha Architect is pretty crazy, I'm sure if we asked your dad, he's probably got a crazy start too. So I literally had this blog, which we still have today and I had a random billionaire, the gentleman who was the son of a huge real estate family up in New York just cold call me and said, hey, I've been reading your blog, I've read your dissertation... This is right after 08, after they all got smoked and everyone who is in hedge funds got killed. He's like, I got $4 billion and I am in charge from my dad, to fire all hedge fund managers, take control of our money, go quan because it seems like much cleaner, easier, lower costs, we can manage taxes, I need you to help me and I don't trust anyone out on Wall Street or Manhattan because they're all like you're just some geek on a blog but I'm going to trust you.

Tim Mullooly: Right. Yeah. Everyone else has like an agenda or something-

Wes: You haven't been ruined yet by the world. That was around 2010 and that was right also when I became a professor at Drexel. So right when I was starting professing, I was starting moonlighting in the background and basically doing consulting for this huge family office. And so we spent two years there, the quid pro quo was, hey, if we do a really good job, would you see our asset management business? Like if we help you guys, basically in your due diligence team, can you see us? And so that's what happened. So 2012 they gave us 20 million in a separately managed account, SMA, and then it went to 50 doing our original quantitative value strategy and then we just grew from there. They were an asset manager business, still working for them kind of as their consulting arm. And we just kept... I don't know, random rich people who read our books and our research for some reason just geeks would reach out and be like, Hey, can you help me do this for me? We were like, yeah. And so that's kind of how we got started. And then now we got like almost a billion dollars, I guess almost nine years later. Like I said, 10 year overnight success.

Tim Mullooly: Yeah, right? Exactly. That's crazy though. I know you said you want it to be a professor coming out of school, did the thought of running your own company ever really cross your mind before it actually happened?

Wes: Yeah, so I always wanted to do it, it's a matter of timing and a matter of how do I de-risk entrepreneurship as much as possible. And one of the best jobs in the world is being a finance professor. And most people don't know this, but like finance professors are arguably way over paid, way under worked in a sense that, you know, typically you get like what they call 3/0 teaching load, so you teach three courses during one part of the year and then you're just free to do research the rest of the time and you get paid a lot of money. Like I'm not going to tell you what it is, but it's like way too much arguably. And it's a great job, I loved it, but it's also a job where your job is to go think about stuff and do research all day.

And my field was what they call empirical asset pricing, they're learning about value factors, momentum factors. So I was already kind of doing... I was consulting but that was what I did for my academic job, so it was a way to like get paid but like my daily hours I was basically doing the same thing for two jobs at the same time.

So I had a lucky run in entrepreneurship where a lot of people there are grinding it out at the hamburger stand and in moonlighting on the evenings in the additional hours doing the entrepreneur thing. I was kind of doing the entrepreneur thing and the academic thing simultaneously effectively.

Tim Mullooly: Yeah because your schedule just allowed for both of it.

Wes: Yeah, tons of free time, tons of like income to keep my wife happy and everything. And the research I was doing was highly, highly applicable to-

Tim Mullooly: Right, it's like directly related pretty much-

Wes: Yeah, it's directly related. So I was kind of like getting paid to be an entrepreneur. And so that's why I always tell people that they're like, man, how do you do this? I'd say, well, one option is to be a professor. Here's the downside, you got to go get a PhD, getting a job, is like 1%, like every job's got 300 advocates for it, so it's damn near impossible to get a tenure track professor job. But if you can swing it, it's a great platform for being entrepreneurial.

Tim Mullooly: Add all of those years in school to the 10 year overnight success.

Wes: Yeah. No, it's just like being like a doctor or something like that. You're like, man, why is that surgeon, he makes like half a million a year. And I'm thinking, man, do you know how long they go back to school and got paid like nothing. He should make that, he's been in school for 20 years and hasn't made anything like he's got to-

Tim Mullooly: To making up for all the money that he put into school and he's just getting it back.

Wes: Yeah, he's got to get a return on capital. That's just how the world works, I think. So that was basically how we got started.

Tim Mullooly: Great. For the listeners, I'll link in the show notes to Alpha architects website. You can go check out everything. Like Wes said, they still have the blog up there, I read their posts all the time. Two of the factors in investing that I wanted to touch on, there's many different factors out there today, but I feel like two of the more basic concepts which on the show we like to keep it as basic as possible are value and momentum. Can you on a very basic level just explain the two of them and how they work and how an everyday individual might work it into their investments.

Wes: Sure. So value investing or value factor can essentially be boiled down to buying cheap stuff. So pay a little for the income or the earnings or whatever you're trying to get. And so that means like in a context, maybe that's outside of finance, but that people are more familiar with is let's say you're going to go buy a rental property. You don't want to buy a rental property that's in like the fanciest area that's already had all the construction done and you pay a huge price for it. You want to get the rental property that's broken needs painting needs-

Tim Mullooly: The fixer upper.

Wes: Yeah, the fixer upper. That's value investing. Buy cheap stuff that's got a really cheap price but obviously it's a fixer upper. It's not Netflix, it's not Tesla, it's like Best Buy but some are like, God, why would I own that? Well, it's cheap and yeah, it's got a lot of problems, it's a fixer upper but that's essentially what value investing is. And historically, why are people enamored with value investing? Well over long periods of time on average, but with a lot of noise, you tend to generate some extra returns beyond just buying like the stock market, right? And so that's value. And momentum is kind of an opposite idea but also a very valid idea.

And momentum is all about just buying winners because winners tend to keep on winning. And there's a lot of arguments about why it happens, I'd say the most intuitive one actually came from one of my roommates who's now retired and like a gazillionaire, he used to be a market maker but he said, hey listen, here's the only thing I know about markets. High prices attract buyers, low prices attract sellers. And essentially what he's saying is momentum, right? Prices themselves attract activity, they attract more people, like winners beget winners. So momentum is essentially that strategy, buying winners because they tend on average and again over long periods of time these tend to outperform just generically buying the market.

Tim Mullooly: Right. So you said for both kind of over a long period of time.

Wes: Yeah.

Tim Mullooly: So I was going to ask like on the spectrum of buy this and never sell it and on the opposite side is day trading it in today, typically how long of a time horizon do you need to let these factors work to get the maximum from both of these factors?

Wes: Yeah. So I look at factors just as another form of we'll call like a risk premium. So it's just like if you're going to buy Beta or stock market risk, the recommendation there is you buy and you hold it forever. But like if you're in a capacity to have money that you may not going to tap for 20 to 30 years, well, the best advice to capture a risk premium is to buy and hold it for 20 or 30 years.

And I think the same exact logic applies to buying value factors or momentum factors. If you're not really looking this as a way to capture an additional premium out there and you don't look at it just like you look at your equity exposure i.e. you're willing to hold it for 20 or 30 years, it's probably not a good idea to do it because the issue with factors is they're very different than the market, and to the extent that you always end up selling it out when you say, oh, this is stupid, it doesn't work anymore or you're always buying more when it's been doing really well, you're almost shooting yourself in the foot at some level.

So I always recommend buy and hold forever or whatever your horizon is for equity or buying stocks, it should be the equivalent for buying a factor essentially.

Tim Mullooly: Yeah. So, so flipping in and out of factors, rotating factors is not necessarily a winning-

Wes: Not something I recommend. Maybe there's some 200 IQ person that can figure that out, you don't have frictional costs and taxes. But in general, the evidence seems to be against that idea on average is what I would say.

Tim Mullooly: So there are a lot of numbers that you can look at to evaluate a company for momentum. Would you say that just like overall the price of the stock would be the thing to keep an eye on and then for value would it be a PE ratio or like earnings per share or something like that?

Wes: So the most basic value proxy would be like PE. Let's say there's a thousand stocks in the universe, you could just simply sort them all on PE and buy the 10% cheapest. That's a classic value strategy. Whereas momentum, the classic momentum strategy, the most simple one, is you take those same thousand securities, sort them on their past 12 month performance and just by the top 10% winners.

Tim Mullooly: The ones that've gone up the most.

Wes: Yeah, so price action basically. price action and then a fundamental action for value. Those are the most simple and they'll get you 90% of the way there for value momentum factors.

Tim Mullooly: Great.

Wes: And we can always argue about the details.

Tim Mullooly: Yeah. And there are many more details but like I said, we wanted to keep it as basic as possible for the listeners out there. So if you want to go do deep dives on momentum and value, Wes has books that we're going to get to in just a minute. A lot of the work you guys do is in the ETF space nowadays. And that's seems to be a growing industry, it's still only a portion compared to mutual funds out there, but it's growing every year. In your opinion, what would you say is just like the overall biggest advantage that an ETF has over any other investment vehicle?

Wes: Yeah. The first thing just to disclaim, the ETF is not a panacea, it's just an investment rep. So, it's not appropriate in all cases everywhere, I just want to make that upfront because if people listen to this, I'll get hate mail. I'm not saying it's like the best thing since sliced bread, but I will say it's a very good thing for three reasons, the tax efficiency. So in the context of stocks and bonds, ETFs essentially can do what real estate people do. You know, 10/31 for real estate, the ability to kind of defer, defer, defer. There's a similar concept in ETF where we can make this super efficient from a capital gains standpoint. And so even though we may be doing activity in a fund, I don't have to distribute that out to you. So you get a deferral opportunity, which is unlike anything else that you'd find in SMA or mutual fund or whatever. So taxes are a big deal if you're concerned about that.

The other thing is transparency. So originally a lot of people were like all this transparency is terrible because you've got to tell people what you're doing and you got to tell them your process and they got to actually understand what's going on. But nowadays with like Google, education resources, people want to understand why and what they're investing in. And that's actually a rational thing because you're putting your hard earned money-

Tim Mullooly: What you're paying for-

Wes: ... and you're paying for the same product, you're making this guy rich, he better tell you what he's doing. So the ETF forces transparency, which is actually a great thing and the transparency allows us to express explicitly our process and the how and why of what we're doing to the end client. So they can either understand that directly or if they're an intermediary like yourself or you're working on behalf of people who don't have every waking hour to think about this stuff, you can understand it and make sure you relay it to them this is a reasonable process because of X, Y, and Z. And then obviously the last benefit is just the fees.

In general the cost of an ETF exposure equivalent is way cheaper than those in hedge funds or mutual funds or customized accounts. I don't know if that's necessarily the case because the ETF wrappers just cheaper to operate. At the margin it's still very expensive, I think just the culture of ETFs is you don't want to get blackballed from the community by having a 2 and 20, you know, 2% fee and a 20% carry ETF because people are just like, it's just not [crosstalk 00:35:55] the culture.

Tim Mullooly: Yeah. Exactly.

Wes: The culture is like, hey, we're trying to bring affordability and lower costs here. We understand people got to make money, but we're the anti high fee, high costs, opacity, tax ineffecient world, we're a different community. So it's more of like a cultural thing that I think drives the, the lower fees and Vanguard too.

Tim Mullooly: Yeah they're setting the bar. Yeah.

Wes: And there are in ETFs, so, hey, that's just the game we're going to play.

Tim Mullooly: Yep. So we talked about Embedded, and I've mentioned a couple earlier in the show, but you have three other books. You have Quantitative Value, Quantitative Momentum and the DIY Investor. Just real quick, do you want to briefly tease those other three books? Yeah.

Wes: Sure. So I'll do two, Quantitative Value and Quantitative Momentum as their title suggest are not exciting books.

Tim Mullooly: Well it depends on the reader.

Wes: But it depends on who you are. So if you're an uber geek or you're really interested in learning about how would one build a systematic values strategy, obviously pickup quantitative value and there's hundreds of references where that book itself is 300 pages, but there's also a thousand papers reference so you can go deep diving on, right? And then the exact equivalent in Momentum. So if you want to geek out on momentum, we got a book for that too, and there's also a thousand papers linked in there where you can go get your PhD in momentum. And again, those are niche books, these are not bestselling novels.

And DIY Financial Advisor is a different kind of book. It's also kind of geeky but what it was is we had so many people, they're never going to use an advisor, they're to do it yourself, they just refuse, they want to learn how to do it, but they needed a way to access the content in a way that's organized and makes sense and kind of gives them frameworks for decision making. So DIY Financial Advisor is just an outline of, hey, if you were going to try and run your own portfolio, it really shouldn't have been called Financial Advisor, it's more like investment manager because we don't go into like planning and estate and all this stuff, it's more like managing the portfolio of investments. It would be how would one go about doing that and what are the different things to think about and consider as you build your portfolio. But there are a lot of people, advisors who do read that and actually use the frameworks in there as well.

Tim Mullooly: Yeah, and especially with the internet today, someone just getting started, I feel like there's so much information out there that you get overwhelmed. So having it all organized for you in one easy framework makes it a lot more palatable.

Wes: The other thing that was interesting is that book, the ideas in there are very simple, but they're actually modeled off the huge family office we work with, who manage bazillion dollars. And they're managing a bazillion dollars and doing a general framework and process that's pretty straightforward and so that's an applicable to a billionaire or someone who's got 50 bucks in their account. The principles are pretty timeless. It's not like because you get too much money, like the rules change. And so that's really what that book is about, it's just boiling down their philosophy more than anything.

Tim Mullooly: That's a calming fact to hear though. It's not like the billionaires out there are playing by the same rules that you are if you don't have as much money, you know?

Wes: Yeah. I think it's in many respects... I mean they have some advantages on like tax planning, they go hire fancy lawyers.

Tim Mullooly: Some of the details are different, but like the overall and big concepts-

Wes: The overall principles are totally similar and usually where you get in trouble is trying to do stuff that's too complex and that book actually talks about what happens there. The problem is experts, right? So experts are so seductive because they seem to know what they're talking about and where is an expert going to go try to monetize their expertise, not with a guy like me, the broke dude, they're going to go to the billionaires.

So billionaires just have to protect themselves from so many angles because everyone's trying to eat their lunch because they have all the money and so they get bombarded by experts. And by nature, what I've noticed is like the richer you get, the more complicated you get, not because you need to be more complicated because you weren't able to fight off all the complexity and all the salespeople and slowly over time you just got enveloped by these folks and now you've got like a hundred leeches hanging off of you. And maybe that's just the nature of how that works, but in general, I have seen people managing billions of dollars without, you know, I could write their philosophy on a napkin.

Tim Mullooly: Again, listeners, if you want to check out those books, I'll link two in the show notes. Wes, before we wrap up, do you want to tell the listeners about the March for the Fallen event?

Wes: Yeah, I'd love to. So March for the Fallen is a living memorial to Gold Star families, so those who had a loved one get KIA in like a combat zone, whether in the service. And it's a living memorial, it's not a charity. And it hosted here at the National Guard Training Center in Pennsylvania and it's 28 miles, but I tell everyone, hey, everyone's got a personal summit. So if you can do 28 miles, great, if you only do five steps, also awesome. It's a really powerful event because Gold Star families who lose their kids are, you know, it's crazy, it's terrible, they really appreciate the fact that people still remember and honor their sacrifice to the country. Like it's one thing to go serve and get shot at or whatever but marines are used to that, but the families, they have someone die, it's literally tragic man. And they've given up so much more than any of us could ever give up because they've given up their own flesh and blood. And so it's a great opportunity to kind of represent and show your support for their sacrifice. And if you want to learn about it go to our website or just type in March of the Fallen and it will be September 28th this year and if you want to do it, just give us a holler and we'll sign you up. And we facilitate logistics to keep it easy and simple for people.

Tim Mullooly: Yeah. I know, Brendan, before we turned the mic on, Brendan was talking about it. He did it two years ago, so I think we're going to try and get a Mullooly show in like this year's event-

Wes: There's going to be a lot of teams out there and it's a great team builder and you guys could have a brothers competition, like who's the fastest brother?

Tim Mullooly: Yeah, will see about that, I'll have to start training in secret before Brendan.

Wes: Yeah. Don't tell him, don't tell him. Start doing the training now.

Tim Mullooly: Yeah. So last question I like to wrap up with for all the guests is, you know, whether it's a personal, professional or a little bit of both, what's one piece of advice that you've gotten throughout your career that's kind of just always stuck with you?

Wes: You know I used to say, never give up, which is still a really good piece of advice, but that one's kind of easy to understand. The one that's less intuitive, I think, is to be a trend follower in life. Be a momentum player. What does that mean? That means that if you're in an industry or in a sector, you want to be in with the trend. Because even if you're mediocre, if you're in the trend, if you get fired, they're going to need to pick you up, right?

Tim Mullooly: Right.

Wes: Whereas if you're out of the trend and you're the biggest all star of all time, but let's say you get fired, it's very hard to get a job. So try to be a trend follower in life. And so whatever you're going to go into, whatever you're going to do, follow the trend because it'll almost protect you from really bad things that can happen from, from being in basically low momentum. So basically be a trend follower or a momentum player.

Tim Mullooly: Make sure there's like a market for what you're doing, pretty much?

Wes: Yeah. Exactly. Make sure it's a growing market and just always be cognizant of trends and make sure you angle yourself to be in those trends so you're successful in life and it can minimize issues when things go bad basically.

Tim Mullooly: Yeah, definitely. Well, that's a good piece of advice to end on Wes. That's all the questions I had for you. Thanks for coming in to the office today.

Wes: Thanks for having me Tim. I really appreciate it and look forward to talk in the future.

Tim Mullooly: Yeah. So, for the listeners out there, again, everything will be in the show notes on livingwithmoney.com. Be sure to check out everything that we talked about in this episode. So thanks for listening to this episode of Living With Money and we'll catch you on the next one.