Tom Mullooly - Mullooly Asset Management - Transcript

Tim Mullooly: Welcome back to Living With Money. This is Tim Mullooly. On today's episode, I am joined by none other than Tom Mullooly, my father. Tom, thanks for coming on the podcast.

Tom Mullooly: Well, thanks for having me.

Tim Mullooly: For the listeners who have been with us since the start, Tom, you've been on a couple podcasts in the beginning too, as well. But never in this capacity before.

Tom Mullooly: It's funny because the original intro that we had recorded used to say, "Your host, Tim and Tom Mullooly," and I used to chuckle every time I would listen to that because I'm like, "I haven't done one of these in a long time." I mean, we have one for Mullooly Asset, the Mullooly Asset Podcast. We've got like 250 episodes. But this is something that you have begun and you're doing a great job.

Tim Mullooly: Thanks. Let's dive right in. I mean, obviously, I know a lot about your background and everything, but the listeners out there might not. So let's start with just a brief background about yourself and when you first became interested in money and finance, and when did you know that working in finance was something that you wanted to do.

Tom Mullooly: Well, to go all the way back, I grew up on Long Island, proud graduate of Chaminade High School, class of '80; go Flyers. Prior to that, I had a paper route and actually learned how to knock on doors and ask people if they'd like to subscribe to Newsday. And I didn't know it at the time, but that was my first foray into selling.

Tim Mullooly: Right, first sales job.

Tom Mullooly: Yeah, and I actually really liked it and I was successful with it. So I was pretty happy to see that. When I was growing up, we had one of these little mini classes and it was on stocks. And so when I was in the seventh grade, I actually bought my very first stock. It was Tandy Corporation, which most people know as RadioShack.

Tim Mullooly: Okay. I was going to say, I don't, not familiar with Tandy.

Tom Mullooly: Yeah. RadioShack was pretty hot in the '70s, but it's gone now, so ...

Tim Mullooly: Right, yeah.

Tom Mullooly: Really, what got me going on finances and investments, I attended C.W. Post and I took finance courses. And there was one finance class. Now, you have to keep in mind, this was 1981, 1982, and I graduated in 1983. But in one of our finance classes, we actually built screens; Excel didn't exist at that time, so I'm guessing that it was Lotus or some other kind of database, but we built screens for companies listed in the S&P 500 based on revenue growth or based on earnings growth. So we kind of built our own database in this class and we started screening for companies that were growing at fast rates or slowing, decelerating, and trying to highlight which were the fastest growing companies, which ones were actually shrinking. And that's when I was like, "Holy cow, this is crazy," the information that's out there and the potential that you have for having an impact on your own nest egg.

Tim Mullooly: So that one assignment kind of just got you hooked on everything and then once you graduated, you went straight into the field of finance. What was the career like before starting Mullooly Asset back in 2002?

Tom Mullooly: Okay. So I graduated college in three years. And I was also, I'm a November birthday, so I'm always the youngest guy in my class. So when I graduated in 1983, I was 20 years old.

Tim Mullooly: Wow.

Tom Mullooly: Yeah. And so right after graduation, I started working at E. F. Hutton, and it wasn't as a broker. It was working in their personal financial management department. And that was a brand new thing, financial planning had never been heard of before. And they started this new department and I was a profiler. I basically started writing profiles for the basics of the financial plans for these clients. I got to see how many commas people can have with some of their numbers. It was pretty eye-popping to see. So I did that four a couple of years. I'll also add, I had to buy my Long Island Railroad ticket, I had to buy tokens for the subway, I had to buy lunch every day, and I was also going to school at night for my master's back at C.W. Post. And I did all of that on $14,000 a year.

Tim Mullooly: Wow.

Tom Mullooly: Yeah, it's ...

Tim Mullooly: Times have changed a little bit, I guess, since then.

Tom Mullooly: Only a little. I will say that the time I was Houghton was really great because it was basically what students go through now when they're studying for the CFP. And it was fantastic education with no risk. It's not like I had some kind of sales quota or working on commission or anything like that. I was basically paid no money and got a free education while I did this, plus go to school at night where we were doing regression analysis and studying the Fed, and it was just a great time to be alive.

Tim Mullooly: Right, yeah. But I feel like that's got to be good especially right out of school, being a young 20-year-old kid, knowing that there isn't some sort of sales quota attached and you have time to kind of learn the ropes and not have someone breathing down your neck at every other turn.

Tom Mullooly: It was really great. It was a great time. I look back now and say, "Wow, I really got a lot accomplished in a very short period of time."

Tim Mullooly: Right.

Tom Mullooly: I got into the training program with Shearson Lehman at the beginning of 1986. I got my Series 7 and became a licensed broker shortly thereafter and-

Tim Mullooly: Right before the crash of 1987.

Tom Mullooly: Yeah, that was a one-day crash course in dealing with investors' emotions and also seeing what was going on. I didn't have to do a thesis, it wasn't a doctorate, but my master's program, I had to write basically a graduate level paper. I did my senior project for my MBA on the directed order flow, used to be called the super dot system at the New York Stock Exchange, which basically crashed like right after I wrote the paper. I wrote the paper at the beginning of 1987 and by the fall of that year, the whole system broke down.

Tim Mullooly: Wow.

Tom Mullooly: Yeah, it was pretty interesting because I sat there the day that the market was just dropping, October 19th, I'm looking at the screen and I'm like, "This isn't supposed to work this way."

Tim Mullooly: Right, yeah. "I know that for a fact, I did a paper on it."

Tom Mullooly: Yeah, I did a paper on this, it's not supposed to go this way.

Tim Mullooly: Yeah.

Tom Mullooly: It's interesting how I was studying all these things and I would leave work early as a broker because I started the master's program when I was at Hutton, I kept going, and then I was a trainee broker at Shearson and I would get up to leave Tuesdays and Thursdays at like 4:30 to go to class, everybody would be like, "Where are you going?" I'd be leaving the bull pen and people are like, "Half a day?" Like, "What are you doing?" And I'd be like, "No, I have to go to class." And they're like, "For what?" And I said, "Well, I'm finishing up my master's." The response was, "What do you need that for?"

Tim Mullooly: Fast forward a handful of years, 2002, started Mullooly Asset Management, where we are sitting here today. Different office, but same firm. What ultimately led you, I mean, after a handful of years in a prior career, what ultimately led you to want to start Mullooly Asset Management back in 2002?

Tom Mullooly: Well, at this point, in 2002, I had been a branch manager for a few years and I had been a retail broker at that point for 16 years. So I was disillusioned and the firm that I was working with basically gave me an ultimatum. They said, "Look, you're managing an office and you're also a producing broker. We don't have people like that in our firm."

Tim Mullooly: Right, people doing both.

Tom Mullooly: Right. "You have to decide, which path do you want?" At the time, you guys were growing up, playing Little League, and doing all the things that you should be doing, and I wanted to be there for that. And so I didn't like the possibility of coming home one day saying, "Hey, everybody pack your things, we're moving to Pittsburgh."

Tim Mullooly: Right.

Tom Mullooly: Because that was a possibility. So I went back into production in September of 2000 and I said, "I'm just going to kind of cool my heels for a year or so and kind of see which way the wind's blowing." Then it was a matter of deciding, hey, really, what do you want to do? At this point, I can tell you that there wasn't much transparency in the business that I was working in. Once people understand the difference between the bid prince and the ask price on over-the-counter stocks, you can start to see, you go back in time and you can see some of these stocks used to trade with gigantic spreads and if your firm was a market-maker, you could actually work for part of that spread, which really isn't, not a good way to run a business.

Once you figure that out, once you figure that stocks trade over-the-counter, then you realize bonds trade over-the-counter. Now you're onto a completely different animal. So we had OTC stocks, OTC bonds. When I became a manager of an office, I learned how firms really make money on the idle cash that's uninvested in client accounts and how the firms could use that on an overnight basis to reinvest it and make money for their own income statement, learning how the commission structure really worked, how it was kind of stacked. I had just started to move clients into wrap fee structure. The firm that I was working with, they were charging 3% per year. I'll say that again real slow; they were charging 3% a year for their wrap fee account. And I just thought that was, I thought that was the way to go, but not at 3%.

Tim Mullooly: Right.

Tom Mullooly: And so the maximum discount I could give anybody was a 30% haircut, which lowers a 3% rate to 2.1%. That's still not a good rate.

Tim Mullooly: That's still pretty high.

Tom Mullooly: It's very high, even in 2001 and 2002. So I really became disillusioned with all of that. The other part of it was, and I had mentioned this on a previous podcast, was that we came to an age in those last few years in the late '90s and into 2000 where you had all this stock market news on TV. I used to come into the office early, I'd listen to the research call from the main office, I'd put together my ideas. I was a transactional broker. I built positions in stocks. That's what I would do. I started getting phone calls from clients at 8:00 in the morning saying, "Company XYZ just reported their earnings, we have to buy this stock." And I said, I remember trying to explain to people, "You don't understand. When a company reports earnings before the market opens, you're already chasing the stock. It's going to gap open and you're going to be the sucker that buys this stock from somebody else."

Tim Mullooly: Yeah, at the highest price.

Tom Mullooly: That's right. Warren Buffett has a very famous saying, if you walk into a card game and you're sitting there, if you're there for more than 30 minutes and you can't realize who the patsy is, you're the patsy.

Tim Mullooly: Right.

Tom Mullooly: So that's really the environment that we were in is that there was the wall of information just vanished. And so everybody had access to the same information. So there was no real edge to building positions in stocks anymore. I saw this business that I had basically built on ... The foundation was crumbling. I was like, "This can't continue." But I didn't like the structure that they had for wrap fee approaches. I just felt it was too expensive. And so as dangerous as it was, I decided, "I'm going to jump off the cliff and I'm going to essentially start all over again." And that's what I did when I started Mullooly Asset. It's been 17 years this month.

Tim Mullooly: Yeah, I was going to say, it was a leap of faith, but here were are 17 years later doing a podcast about it. So obviously, things worked out.

Tom Mullooly: Keeping my head above water.

Tim Mullooly: Yeah. We talked a lot about starting a business and what to know about starting a business back in episode nine, so for the listeners, if you want to go back and listen to that, you can check that out as well. Starting a business in 2002 and then having it be today, 17 years later, 2019, what would you say has been the overall mission of Mullooly Asset Management as a firm? And is it the same as it was back in 2002 or has it changed a little bit over the years?

Tom Mullooly: The mission had began as help individual investors get on that right track towards retirement, or if they're in retirement, keep them on the right path. That mission has never wavered. It's only gotten bigger and more refined. I'm excited about the next 17 years because we have tools at our disposal that can really help investors get better and better at managing their expenses, keeping an eye on cash flow, managing their investments, managing the risk in the investments, helping them prepare for the next generation, working with those people. There's a lot to like.

Tim Mullooly: Yeah. Definitely. Coming up on 17 years being your own boss and a handful of years working in a family business, obviously we all work here together, what would you say is your favorite part about, one, being your own boss, and two, working in a family business?

Tom Mullooly: Well, I'll answer the second one first.

Tim Mullooly: Okay.

Tom Mullooly: Working in a family business, there are no trust issues. You don't have to worry about someone who you thought was a partner who is going to stab you in the back. Unfortunately, I saw a lot of that in the earlier part of my career working in the brokerage community. I would see older brokers pairing up with younger brokers; these younger brokers would just get screwed. I can't think of another simpler way to say it, but they would become a slave to the older broker's clients. That's really all they were, and there was no chance for them to grow their book and it was a death sentence. So one of the older brokers in the office pulled me aside and he said, "Hey, buddy, don't ever pair up with any of these guys in the office. Don't ever do it, just build your own business." Great advice.

Tim Mullooly: I was going to say, that's-

Tom Mullooly: Great advice.

Tim Mullooly: Good advice.

Tom Mullooly: Yeah. Being your own boss ... This pause was intentional. Being your own boss definitely has taught me a lot. It's taught me to face down fear. It's also taught me, in a related vein, to not be afraid. It's also taught me to think outside of myself, in the sense that I can't think about what's best for me, I have to think about what's best for the potential client who's calling in or walking through that door, or someone that I want to bring on board and work with us.

Tim Mullooly: Right.

Tom Mullooly: It's helped me mature as a person and I think that's probably the best takeaway that I have.

Tim Mullooly: Yeah, definitely. I'm sure it's not always easy being your own boss or working in a family business. So ...

Tom Mullooly: I just want to chime in on that because I can tell you that in 2002, we had DSL in the office. I had to actually go to Staples and buy desks and chairs and learn how to put them together. I brought a screwdriver set to the office, which you actually got me a few years earlier as a gift.

Tim Mullooly: Right.

Tom Mullooly: And that's still here in the office that I use. Things like the cable going out, and that happened, remember, in 2002, the Internet was still pretty new. High-speed Internet was a fancy thing, like you were a big swinger. The email would go out and then I would realize the website was down because the email was connected to the website. Yeah. I had to figure out how to use Excel and pretty soon, Excel ran our business. I had to figure out all the technology in the office, how all the software worked, but I even had to do things like if I didn't get the overnight packages, like FedEx and UPS, out to TD Ameritrade and wherever else we were sending paperwork to, if I didn't get them to the post office by 4:00, they weren't going out. So I would actually take the phone off the hook at 3:45 and run down the hall and across the street to the post office to get in before 4:00.

Tim Mullooly: So would you say that just having all of these things on your plate at once is probably the most difficult thing about being your own boss, just having a million different things to juggle at once?

Tom Mullooly: Yeah, there's so many things that you now become responsible for. And-

Tim Mullooly: Yeah, and things that you probably didn't expect to be responsible for.

Tom Mullooly: I never expected them and you're never really prepared for it. I was working for like two weeks and I'm like, "Gosh, that bathroom's filthy." And then I realize, I'm like, "Oh my goodness,"-

Tim Mullooly: "That's because I didn't clean it."

Tom Mullooly: Yeah, I have to take out the trash, what? Yeah, it was another level of the education.

Tim Mullooly: Right, yeah. So what would you say is the most challenging, I'll put it that way, challenging thing about working in a family business?

Tom Mullooly: You have to juggle it all. I think the hardest thing was we used to have a rule, and you probably remember it, we used to say when we go home, we don't talk about work.

Tim Mullooly: Right.

Tom Mullooly: And I was the biggest offender of that rule, all the time, only because I used to have an outlet in the sense that when I was a broker, I would get in my car and I would have a half-hour drive home and I could just parse through all these things in my head before I walked in the front door. And my mind would be clear. But now, first of all, we all work together. When you guys started, you lived at home.

Tim Mullooly: Yeah.

Tom Mullooly: So there was no escaping it for the first year or two until you guys moved out and got your own place.

Tim Mullooly: Right.

Tom Mullooly: So that was really hard, separating personal from business.

Tim Mullooly: Yeah.

Tom Mullooly: I also have learned, being a community figure here in the area, that it's hard to separate personal with business. I'm extremely active. I'm a trustee at St. Rose in Belmar. I'm on the board for St. Rose High School. I am on the finance council for the Diocese of Trenton. I see a lot of people.

Tim Mullooly: There's a lot of overlap there sometimes.

Tom Mullooly: Yeah, that's ... A lot of these lines get crossed along the way. It's just the way it is. We're, as a firm, we're extremely busy with the Jersey Shore Chamber of Commerce. I'm on the executive committee there.

Tim Mullooly: Right.

Tom Mullooly: A lot going on.

Tim Mullooly: Yeah, definitely. Back in 2002, this is kind of a growing term nowadays, being a fiduciary and fee-only, but you decided to start Mullooly Asset Management as a fee-only fiduciary firm. So what was the thought process there for you to start a firm like that?

Tom Mullooly: I was sitting at my old firm trying to basically figure out what my options were. I had a deal on the table from a rival firm; their office was across the street from my current office. I had another firm that has a lot of solo offices around where you would be like one guy in town and then there'd be another guy five or ten miles away. I had an offer to be one of these dual-registered advisors where you're broker and advisor. And I had a conversation with a friend of mine, Joe Hays, and I said, "What do you think I should do? I mean, do you think I should just transition over a period of time to fee-only?" And he said, "You know what? If you're going to ultimately be fee-only, why don't you just rip the Band-Aid off and just go?"

Tim Mullooly: Yeah.

Tom Mullooly: And good advice. It hurt.

Tim Mullooly: It was probably a tough decision to make at the time.

Tom Mullooly: It was very tough because one of the things I know I mentioned back in episode nine was when you think you've planned to have enough money to finance this little venture, you never have enough.

Tim Mullooly: Yeah.

Tom Mullooly: You should double what you're aiming for, and that still won't be enough.

Tim Mullooly: You'll always need more.

Tom Mullooly: You will always need more.

Tim Mullooly: Right.

Tom Mullooly: This is like having another child in the sense that it always needs attention and it needs money.

Tim Mullooly: Right.

Tom Mullooly: And so you have to continually be pouring capital into the business to get it off the ground.

Tim Mullooly: Yeah.

Tom Mullooly: Just like a plane gets off the ground.

Tim Mullooly: The term 'fiduciary' has been in the news a lot lately, the last year or two plus. What does being a fiduciary mean to you and why do you think that it's so important for clients to understand what that means?

Tom Mullooly: Good question. I'm almost embarrassed as an industry member to have to even talk about this.

Tim Mullooly: Right.

Tom Mullooly: Would you question the veracity of a doctor's opinion or a lawyer's opinion if he told you what to do? No. You wouldn't. Nobody would because they are fiduciaries, but yet we should all be fiduciaries. And there's a large, large part of our industry, I don't know where the numbers are, 75, 80%, of our population, they are not fiduciaries. What I find really amazing in 2019 is that they're getting really good at defending the point that they don't want to be fiduciaries.

Tim Mullooly: Right.

Tom Mullooly: And, "But we'll keep your best interests in mind." Well, you know what? Screw you. I think people should work with a fiduciary and it shouldn't even be a question. I could not believe, when I got started in this business in the '80s, that we weren't fiduciaries. You would go into the conference room at the first office, the first firm that I worked at, and they had plaques along the wall, and I thought these were for being the best broker of the month because they made a lot of money for their clients. It was for people who generated the most commission. And I was like, "Oh, so they"-

Tim Mullooly: But how did the clients do?

Tom Mullooly: Right.

Tim Mullooly: We don't know.

Tom Mullooly: That's irrelevant. And so it was, "Hey, this guy did the most commission." He had a plaque. A plaque on the wall so everybody could see it. They'd post the commission run outside the branch manager's office every morning. Every morning. And so everybody in the office knew how much gross everybody was doing and how much everybody was doing month to date, and in some firms they would even post year to date. And there was usually a memo that went around for the entire time that I was in production, there was a memo that went around and showed how much production month to date, year to date, people in the office were cranking out. It's a sales job. I know if we had a crystal ball ... I got to be honest. I don't know how anyone can make a living in 2019 doing what I did as a transactional broker. I mean, I was taught, "Here's the script on this stock," you opened accounts on this stock, you had a second stock that you would go back to clients and pitch them on and build a second position to get more money into the firm.

I mean, this is the way you did in the '80s and even into '90s. And then you would build it until you got 100,000 shares of a position, and then when the stock reached a target that you wanted to sell it at, you blew out of that position and you went into the next idea and you'd have a payday. And it was like, "Okay, build up seven or eight of these positions," and pretty soon you're making a nice chunk of change.

Tim Mullooly: Right, yeah.

Tom Mullooly: I don't know how anybody can survive doing that now with the business the way it is. They can't. I feel really bad for some of these dinosaurs, and some of them are still around. I don't know what they do for business.

Tim Mullooly: Yeah, it's got to be tough with the way that the industry has been shifting and that's, like you said, I was going to ask if you had your crystal ball, where do you see the industry going in the next couple years? I mean, having seen it shift over the span of your career to this point, you think it's just going to continue along that path or is there ever going to be a reversion back to the way it was? Or do you see anything crazy coming out of the wood-works?

Tom Mullooly: Again, I'm only making a prediction, so this is two guys sitting in a bar talking. But I really think it's only a matter of time before Google and Amazon and Microsoft get into this business. I don't really know where the future's going to go. The one thing I know is that since 2002, in 17 years, as a firm, we've had to be pretty flexible in shift directions in our business to stay up with those kind of changes in the industry, and we'll continue to be nimble and move forward. So we don't want to get too bogged down in having too much of our business getting done one way, it's too risky.

Tim Mullooly: Yeah. So that kind of leads me into my next question and with the future and all the technology that's been coming along over the last couple years. We've seen robo-advisors come into play and stuff like that. Your blog that you started over the last couple months is called the Human Advisor. Do you want to talk about why you chose that name and what are your thoughts on the growing trend of technology in the industry?

Tom Mullooly: Well, I know it just got said that it's going to be a matter of time before these big technology companies get into our business, but I still think that this is a person-to-person business. I called the news site the Human Advisor because this is a business between humans, between people. And we, you and I, shot a video yesterday where we talked about the biggest mistakes that retirees make. Some of these things can't be parsed out by a computer or by artificial intelligence. It's, "Hey, I retired three months ago and I woke up today and I decided that I'm going to pay off my mortgage." Whoa, that's a huge shift in your plan. You need to talk to someone about this. I think that the software that's being developed now is really, I think what people need to remember is that these things are tools, they're not solutions.

Tim Mullooly: Right.

Tom Mullooly: They're tools. And so they're tools for individual investors, but they can also be tools that advisors can use to help streamline their business as well.

Tim Mullooly: Right, yeah, that makes sense. So, I mean, you feel like there's never really going to come a day when humans no longer need to take part in this process.

Tom Mullooly: I don't see that happening during my lifetime or yours.

Tim Mullooly: On the Human Advisor, there's a handful of blog posts that you've put up. One of the most recent ones talks about the Fed and rate cuts and the "impending rate cut" that's coming. Do you want to talk about that post that you put up about rate cuts and what it talked about and kind of what the message might be for people this time around?

Tom Mullooly: A couple of thoughts come to mind. The first thing I'll mention is if you're not following the conversation that's happening in finance Twitter, get with it. Get on Twitter and you are going to learn a lot. Asking the listeners to get on Twitter and just start following some of the people that we follow, and you're going to learn a lot. And so yesterday, I had a small conversation back and forth with Eddy Elfenbein, who's ... He's a whiz. He posted the future's odds for the rate cut. Now, we're recording this the day before a Fed meeting.

Tim Mullooly: Yeah.

Tom Mullooly: And so we're kind of in a quandary. We're recording this before the Fed meeting, but the recording will come out and it will be posted after the Fed has given out their results.

Tim Mullooly: Perfect time to make a prediction. Just kidding.

Tom Mullooly: The current odds, this was as of Monday afternoon, were that 27% of the people who were casting votes think that the Fed will cut 50 basis points, 73% think that there's going to be a 25% basis cut. And I posted the question, "You mean 0% for no action?" Which is, in my mind, incredible. I don't believe that the Fed has a need to cut. I don't see it in any of the data that I look at. And I think it's important for people to understand what's going on in the macro economy so that they can make better decisions in their personal situation. One of the little slogans that I've got taped to my computer screen is, "Macro news for your micro situation." And so how can we take the news that's happening, the headlines, and apply it to our situation? The first one is, don't get hung up on all macro situations because some of them just don't have an impact on you.

The thing that's important in my mind is that the market has made up its mind that there will be a rate cut tomorrow, whether it's 25 or 50 basis points, it's anyone's guess. I'm shocked that there's no discussion of what if the Fed does nothing? And I think we need to be prepared for that, even if I'm way off base, but we need to think of all of these options. And why would the Fed cut rates? That kind of leads to, there was a list of questions at the end of the post, does the Fed know something that we don't know in terms of the economy? I don't think they do. I think that one of the complaints that I've heard in the last few years, and when you pull the curtain back I've heard it for 33 years, that the Fed is always behind the curve. Like, they're always late to the party. They're always late to the news and when the economy is slowing down, it's not until then when they start to lower rates.

By definition, they almost have to be behind the curve.

Tim Mullooly: Yeah, that makes sense.

Tom Mullooly: Yeah, I think people miss that. And if you're the Federal Reserve and you're anticipating a slowdown in the economy, you're almost going to make it happen.

Tim Mullooly: Right, exactly.

Tom Mullooly: So they're in a no-win situation in the sense that no matter what they do, they're going to be criticized for it and they may actually exacerbate a situation as well. This rate cut business, I just don't think enough people understand economics and how they work to understand where the Fed's going with all of this.

Tim Mullooly: Yeah. It really is shocking to see how much of a done deal it seems like people think that this is. It-

Tom Mullooly: I guess we'll find out.

Tim Mullooly: We'll find out. This will be out afterwards, so we'll have that information by the time you guys are listening to this. So you'll know how things went down.

Tom Mullooly: I don't know what's more important, the Fed decision, which comes out at 2:00, or the baseball trading deadline, which will be at 4:00.

Tim Mullooly: Well, personally, I know which one is more important to me. But we'll let the listeners decide on that one. But kind of along the same lines as the Fed cutting or raising interest rates, it usually has something to do with inflation or lack of inflation. You wrote a post a little while ago about the inflation that "never was." Do you want to talk about that article as well and how the inflation that was expected never really came about or it did in a different way?

Tom Mullooly: This is so important and I think the further we get away from 2008, -9, -10, the more people are going to forget about it or they're going to rewrite history in their mind about how it all went down. But the biggest fear in 2008 and -9 as the quantitative easing programs went on and then continued were that the Fed is going to create hyperinflation in the economy by printing as much money. That's when we saw gold go up. You kind of have to understand history a little bit. I'm going to go back even further to 2006. The Federal Reserve was basically given a new rule in 2006 saying by 2011, or in 2011, five years forward, they were going to have the ability to pay interest on excess reserves. So every bank has to keep a reserve amount with the Federal Reserve. That's the rules in terms of keeping the banks in line.

The Federal Reserve never paid banks interest on excess reserves, so banks would not keep any excess reserves.

Tim Mullooly: No incentive there.

Tom Mullooly: Right, what would they do? They would call up the bank across the street and they would lend money to each other overnight, or they would make loans.

And so there was no interest on excess reserves. Well, in 2006, they were now given the power, the Fed was given the power to be available to pay interest on excess reserves. Never had been before and this was supposed to be in place five years later in 2011. Well, in 2008, in fact, in September of 2008, was when they said, "Hey, we have this tool, we're not supposed to use it for three years. Think it would be okay if we start using it? Because we kind of really need it."

And so what they did was they started paying interest on excess reserves in September of 2008 at a rate of 1% per year. Now, at this point, they had lowered the federal funds rate to zero. And so banks had zero incentive to lend out any money anywhere because they were going to get 1% guaranteed no-risk from the Federal Reserve. In the next few years, they lowered that rate to 25 basis points, but then in 2016, they started raising it when they started raising interest rates. And so banks had no incentive to make a lot of loans. They made loans, but they didn't make a lot of loans because they were getting a guaranteed rate of return from the Federal Reserve. The Fed went from having zero excess reserves to four trillion dollars in excess reserves. And so everybody wonders, like, "Hey, the Fed created all this money by printing, quantitative easing. Where is all the inflation? Where did it go?"

Well, there was no inflation because all the money that was given to the banks was basically reinvested back at the Federal Reserve earning interest. Now, one of the tools that the Fed now has at their disposal if they want to spur the economy into action, they don't necessarily need to lower rates. They can simply go ahead and lower the rate that they pay on excess reserves, and banks will say, "You know what?"

Tim Mullooly: Start lending it again.

Tom Mullooly: "We can start making some more loans. We can start doing things with this money because we're not earning as much as we used to." I think if they really wanted to spur the economy, they would lower the rate on interest that they're paying on excess reserves. That'll shake free a lot of money and they can do it in a controlled fashion where they can do it to generate inflation. They can tighten it up to keep things under wraps. I think a lot of people, one of the sayings that you hear a lot is, "The Fed's out of bullets."

Tim Mullooly: Right.

Tom Mullooly: They don't have any, there's no way, they're not going to be able to stop the next recession and it's going to be worse that the last one. That's fake news.

Tim Mullooly: Yeah.

Tom Mullooly: Right? They have more tools at their disposal than ever before. And interest on excess reserves is something that people, in general, never talk about. I think a lot of them don't understand it. I kind of had to educate myself. I spent a lot of time on the Federal Reserve websites. If you go to the San Francisco Fed, they have a terrific blog. The New York Fed periodically comes out with great articles, but I think the best website of all is called FRED, and I'll use charts sometimes from FRED. This is the Federal Reserve of St. Louis. Probably the single best website I've ever seen.

I've also learned a lot by reading some of these articles from the Cato Institute about Federal Reserve policy. It's important for folks, the guy on the street, to understand how these economic levers work just so that they can cut through all this nonsense that they hear on TV about what's going to happen with interest rates and what's going to happen with the economy.

Tim Mullooly: Right. Yeah, people don't really understand consequences that it will have either on the economy and more importantly just on themselves. I think that that's the main thing that people on the street to know. Like, how is this actually going to impact me personally? And a lot of people don't understand that and it gets made out to be a bigger deal than it actually is for the everyday person, I think.

Tom Mullooly: Yeah, and a lot of people just throw up their hands and they say, "It's just one big racket."

Tim Mullooly: Yeah.

Tom Mullooly: "I'll never win."

Tim Mullooly: Right.

Tom Mullooly: It's not a matter of winning or losing, it's understanding the rules of the game and how the game is played. You can win the game if you understand the rules.

So right now, the Fed funds target, I'm sure it's going to change tomorrow, but the Fed funds target is two and a quarter to two and a half. The rate that the Fed pays banks for interest on excess reserves is 2.35. It's right in the middle of that range. And so there's no incentive for the banks to lend more than they need to lend.

Tim Mullooly: Right.

Tom Mullooly: So I think that's going to be a tool we're going to hear a lot more about in the future.

Tim Mullooly: Yeah, definitely. And speaking of knowing the rules of the game and understanding how it's played, you had a post that was called Where the Lines are Drawn. And I feel like that directly ties into that saying. And can you talk about why it's important for people to understand where their data and returns and where the goalposts are kind of where people draw the lines in terms of data and charts and stuff like that?

Tom Mullooly: I'll give you a total, out of the realm series of questions to kind of drive this point home.

Tim Mullooly: Okay.

Tom Mullooly: Who's the best hitter on the Mets?

Tim Mullooly: For batting average, Jeff McNeil.

Tom Mullooly: Okay. That's this year. Who has the highest lifetime batting average on the Mets, ever?

Tim Mullooly: Not sure. David Wright?

Tom Mullooly: John Olerud.

Tim Mullooly: Yeah.

Tom Mullooly: Remember the guy who used to play with the helmet on at first base?

Tim Mullooly: Yep.

Tom Mullooly: So who has the best batting average on the Mets since the all-star break?

Tim Mullooly: Amed Rosario?

Tom Mullooly: Michael Conforto **(**Personal note - it WAS Amed Rosario. I was right :)**)** It really depends where you draw the line. So we're looking at, in those three questions, we found out who the best hitter year to date is. We found out who the best hitter lifetime is. We found out who the best hitter is in a very short period of time. People like to do this with their investments. But worst of all, a lot of people in our line of work like to blur the lines also by moving the goalposts and say, "Over the last six months, this investment has returned x and the market has done y." I don't think that's really the best comparison, especially if you have a short-term portfolio versus a longer-term portfolio. If you have longterm goals versus near-term goals. If you are ... You get the idea.

Tim Mullooly: Yeah.

Tom Mullooly: With all this. And so it's easy to move the goalposts and kind of deflect why, hey, this investment hasn't been so hot the last couple of weeks or months or years.

Tim Mullooly: Yeah. If the data that you're finding doesn't back up the point that you're trying to make, you can just move the goalposts until it does.

Tom Mullooly: It happens a lot in our line of work and I'm sad to say that that's ...

Tim Mullooly: Because it's not lying. The numbers are what the numbers are. But the point, I think, gets misconstrued a lot.

Tom Mullooly: I think you need to really also keep in mind that using the S&P or the Dow Jones as your yardstick is really not fair. If you have a basket of 30 stocks and they're all large blue chip stocks, then maybe the Dow Jones is your yardstick. Maybe the S&P 500 if you're, again, all large cap, mainly US-based companies, on a cap-weighted basis, yeah, maybe that should be your yardstick. But if you are looking for growth and you have small cap growth or small cap value, mid-cap growth, mid-cap value, international, emerging markets, there's a lot of yardsticks out there that may not all be for you.

Tim Mullooly: Yeah, and I think piggybacking off of that, the blend of investments definitely matters but the time horizon does too. So what the S&P has done year to date in 2019, is that terribly important for someone who's 30 years old and is investing their money for the next 25 or 30 years?

Tom Mullooly: It shouldn't be.

Tim Mullooly: Right.

Tom Mullooly: A lot of people get hung up on it.

Tim Mullooly: Yeah. Another thing that I've started saying to clients because I hear you say it to clients all the time and I agree, is that working with an advisor as a client, it's a participation sport. Do you want to explain what you mean by that? I know what it means, but why is that so important for clients to understand, that it's a two-way street?

Tom Mullooly: I think people in our line of work are feedback junkies and I think that if they're not, they should get out of the business and do something else. We need feedback. We thrive on that. We want to know when something's working and when something isn't working. And we need folks to respond. Perfect example, we send out a weekly email to our clients and really, most of what's in that email on Friday afternoons is the content that we've produced here this week. And we've produced the content mainly based on questions that we get from clients. And so we do videos, we do podcasts, we write blog posts based on stuff that our clients are talking about, that they're calling in and asking about. And if one client picked up the phone and asked us this question or emailed us a question, we know that other people are out there doing the same thing.

So we want to hear from our clients. We want to hear the questions that they have, even if they're not related to their account. Maybe it's related to investing and we can share that with lots of other people. And so we need to do that. But the other thing is when a client moves, they got a lot of stuff going on. They just, they sold the house, they're buying another house, they're packing up their furniture, they're changing schools, they're doing all this other stuff. Don't forget about us. Like, you got to keep us in the loop. When your mail comes back undelivered with a yellow sticky on it, dude.

Like, come on. This is a participation sport, you got to tell us. We need to know this stuff. And so yeah, it's a participation sport. So it also helps give us feedback on, someone may say they want to be aggressive. But then we start hearing, "Well, that's too aggressive," or we start hearing things that help us tweak things more for your liking.

Tim Mullooly: Yeah, it's hard to make a goals-based plan for people if you don't know what their goals are.

Tom Mullooly: Goals change.

Tim Mullooly: Yeah, exactly. I mean, some people might not plan on having kids and then they have kids, or they weren't planning on moving or they weren't planning on getting laid off. Things change and we need to know about it.

Tom Mullooly: This is why I really believe that robo-advisors are going to have a hard time.

Tim Mullooly: Yeah.

Tom Mullooly: Because there's no way you can factor these things on the fly. Robo-advice is a tool. It's not a solution.

Tim Mullooly: Yeah. So over the span of your career, 15 or so years working as a broker and now 17 years as an advisor, what would you say is the most important financial lesson that you've learned over the entire span of your career?

Tom Mullooly: Two words: save money. Saving money will boost your standard of living more than the hottest IPO or being in the right sector for 20 years. Saving money will do more to change your life than any investment that's out there.

Tim Mullooly: It's not the most sexy answer that people always like.

Tom Mullooly: It's not. The other thing that I'll also add as a follow up is know your numbers. I am stunned, and we usually say this in the debrief after a client meeting, that I'm stunned at the amount of clients that come through here that don't know their numbers on a monthly or annual basis what their expenses are like, what their needs are. It's shocking. It's shocking. And there's a lot of people out there who are not well-off, may be able to fix that or at least address it. Knowing your numbers, you've got the game halfway beat.

Tim Mullooly: Yep. Couldn't agree more. Last question. I like to, as you know, wrap up every episode with this question for all the guests, whether it's a personal or professional piece of advice, what's the one piece of advice that you've gotten over the span of your lifetime that's just stuck with you?

Tom Mullooly: Can I offer two? When I was a broker for several years, I sat next to a gentleman who has now passed away. His name was Bob Steck. We both had to travel about 25 miles to get to the office and every morning, I would get there around 7:15. He'd be there. This guy, he passed away several years ago, he was 30 years older than I was. He'd always be there. He was the first one in, turn the lights on. And he said to me almost every morning, so it stuck with me ever since, this one phrase, "If you're not early, you're late." He would say that as a joke when I would come into the office because he was always number one, I was always number two. But if you're not early, you're late. And you think about some of these guys like Tom Coughlin who was the coach of the Giants-

Tim Mullooly: I was going to say, I remember him saying that.

Tom Mullooly: Yeah, and you think about all these folks. Ross Perot who just passed away, I could see him saying things like that. There's something to be said that if you show up five minutes late to a client meeting, I already know, if I'm the client, I'm knocking some points off of your score. You know what I mean? If you're going to be five minutes late to everything, bad. You make a bad impression. You're really going to have to work twice as hard to win me over. Be early. Be on time. Show up. Be prepared.

That kind of leads me to my second thing, which is something that I've heard from you and from Casey.

It's something that we used to talk about at the dinner table all the time growing up. You played basketball against yourself.

Tim Mullooly: Yeah.

Tom Mullooly: And that is a line that's from a book called A Season on the Brink, which is the story of Bobby Knight and the Indiana basketball team that went undefeated. And it's important to know that, I've heard you explain this on podcasts as well, but what you're really doing is you're challenging yourself to be your best every day. You're not playing against this point guard tonight or that power forward tomorrow night or some center who's seven foot tall the next night. You're playing against the best of your abilities. So look, if you had the ability to go out last night and score 24 points and have 12 rebounds, what the Hell is your problem tonight? What went wrong? So it wasn't the guy you were playing against, it was you. So why can't you bring your A-game to work every day? Why can't you be your best every single day? That's it.

Tim Mullooly: A good one to pass along to the listeners. And that's all the questions that I had for you, dad. Thanks for coming on the podcast.

Tom Mullooly: Happy to be hear. Happy to contribute.

Tim Mullooly: Right. Real quick before we wrap up, good time to make a prediction.

What do you think the Mets do before the end of the trade deadline? We've already seen them trade Jason Vargas. They've acquired Marcus Stroman. What do you think happens?

Tom Mullooly: There's a lot of talk out there about whether the Mets are going to move Wheeler or Syndergaard or both. I'd be happy if the Mets did nothing from this point forward because what they've done is they've added another pitcher. They've actually strengthened a strength. And I'm okay with that because they said that this year they're going for it and next year they're going for it. I can't think of a better way to do that. So if they acquired a starting pitcher like Stroman and then trade away another one, they really kind of canceled all this activity out. And they're just making moves for the sake of making moves. There's something to be said about people that you meet in life who appear to be busy all the time but they're not getting anything done. And they're just being busy for the sake of being busy. Do something. Do something. Build something.
And I think this is what frustrates most Met fans is that they don't build anything. They have a foundation that's built on sand. There's no long-lasting effects to this stuff. If they're just going for a flag, they could be like the Yankees and just go out and buy one for this year and next year, and maybe that's what they're doing. But it's very frustrating to watch, so my wish is that they do nothing. And we're going to walk out of this conference room and find out that they traded everybody. They traded Alonso for a bucket of balls.

Tim Mullooly: Yeah, well hopefully not, but hopefully your wish comes true. I would be okay with that as well. It'll put them in a good spot for next year. I feel like this year's too far gone, but we'll find out. But thanks for listening to this episode of Living With Money and we'll catch you on the next one.