Fresh Invest S4E9: A rewind for your money matters: Lessons from season 4
Episode Description: It's the season finale! We're taking time to reflect on this year's biggest learnings and answer some final audience questions. From insights on financial wellness for women to AI's influence on the financial landscape, we're touching on topics that can have a big impact on your portfolio.

Alex Lieberman:

Hey everyone. I'm Alex Lieberman, co-founder and executive chairman of Morning Brew. Welcome to season four of Fresh Invest, the podcast where we explore all things investing, sponsored by Fidelity Investments and powered by Morning Brew.

In this season, we've been exploring strategies and tips to help you invest wisely wherever you are in life. With help from our friends at Fidelity, we dove into the investing lifecycle in the context of today's market landscape, emerging trends, and long-term wealth building strategies.

Today's episode is super special. It's the last one of the season and we're going out with a bang. I'm joined by John Gagliardi, regional brokerage consultant at Fidelity and a seasoned, Fresh Invest veteran. John has made an appearance on every single season of Fresh Invest so far, including season three when he joined me during the finale to answer audience Q & A, and give his own top-notch takes and insights.

Today we're teaming up for another recap, and yet that means another round of answering the thoughtful, important audience questions that we haven't gotten to yet this season. These will touch on a variety of important topics from how to assess risk profiles to the ins and outs of investing for your kids.

But before we get to the listener Q & A, we're going to quickly run through some of the biggest highlights from this season. This was honestly so hard to narrow down because we've heard so many golden gems and actionable insights from our Fidelity guests over the past couple of months. Let's get into it.

John, great to have you back.

John Gagliardi:

Good to be here.

Alex Lieberman:

Four for four.

John Gagliardi:

Four in a row.

Alex Lieberman:

Let's do this thing. So for our listeners who don't know you yet, could you just quickly introduce yourself and talk about what you do at Fidelity?

John Gagliardi:

Sure. My name is John Gagliardi. I am a vice president regional brokerage consultant. What I essentially do is I help our self-directed investors become better investors. And you want to hear my joke about this?

Alex Lieberman:

Let's do it.

John Gagliardi:

Every time I meet with an investor, I'll ask them, "Do you want to be a professional investor?" And they wince. They cower a little bit and they pause. And I say, "Don't worry. The word professional just means you make money doing it. Would you like to make money when you invest?" And they say, "Well, sure who doesn't?" And then I take them through. Well then you have to insist on having professional tools, professional research, a professional financial advisor. And I come in for the parts of the tools and research, the do it yourself part.

And when I go through that, by the time we're done, they have a bit of a plan for their self-directed investing. And along the way they figure out how much of this do I want to do myself and how much do I want to let the professionals manage? And in doing all that, they come to a lot of conclusions and they become better investors because they lay all that out.

Alex Lieberman:

Totally. I love it. Well, before we do the Q & A in a few minutes from our listeners, let's hop into the top soundbites from this season.

Last year, financial predictions were often dire with many pointing toward a recession looming out on the horizon. While the recession talk is still happening today, 2023 has played out pretty differently. Right from the get go in episode one, we analyzed how 2023 has reacted to the challenges of last year. Let's take a listen.

Episode 1 Recap Audio:

So this has been the year of resilience really in the economy. And if you think about it, 70% of the American economy is consumer spending. Consumers are spending. People are spending money because they have jobs. Unemployment is very low and wages are now that inflation has come down, it's still elevated, but it's a lot less elevated than it was. And now wages are starting to keep up with inflation better. So people have money in their pockets, they have jobs. We are not seeing widespread layoffs or anything like that, and so the economy just continues to churn along.

Alex Lieberman:

After establishing a context of today's market, we zoomed in to get a more personalized view of finance by exploring what financial wellness looks like specifically for women. Here's a highlight from episode two about the financial knowledge gap.

Episode 2 Recap Audio:

The financial knowledge gap from what we've seen, starts really early. And what we saw that's so interesting in our research is when you talk to young girls and young boys, and you talk about basic financial concepts, I'm talking like a debit card or setting up a savings account, the literacy is consistent.

Then when you start mentioning things like stocks, mutual funds, ETFs, what you really see is this divergence where boys are feeling a lot more confident and knowledgeable. And girls seem to come down, and they really start to talk about feelings of being more overwhelmed, or nervous around these concepts.

Alex Lieberman:

Then we took a look at generational investing trends where we explored key financial management strategies that millennials should put in their playbooks.

Episode 3 Recap Audio:

There's some really good trends that we're seeing. They're saving a lot more than they have in the past. But because the stuff that they've seen, like you were mentioning, the pandemic fresh on their minds, not that it isn't for everybody, but they feel like they've only lived through historical events in real time. They're way too conservative and so they're much more cautious than other generations. And so they're saving money, which is excellent. But they're not doing the second part of a two-step process, which is investing the money for growth because you're so young, and so you have so many years until you're actually going to need it.

And so I'm encouraging the listeners out there, keep going. I love that you're saving. I encourage you to try to invest with more of a growth mindset, knowing that over time it should pay off better than just sitting in cash and don't be afraid to talk to somebody about it first of all.

Alex Lieberman:

We also took a look at the rise of fixed income investing and how financial tools like CDs and bonds can help investors plan for retirement and better navigate market volatility.

Episode 4 Recap Audio:

Historically what we've seen is that stocks are more volatile than bonds. Yet at the same time, the stock market has been a very good place to generate wealth over time, particularly the US stock market. At the same time, bonds can be this great diversifier.

You asked about the concerns of the Morning Brew community being both at volatility versus the growing wealth for retirement, and I think it's very hard to have one without the other. And indeed, certainly bonds can be volatile too at times. But I think the key difference is this notion of the contractual obligation that bonds have, as we said at the beginning, pay your money back at the end of their life and to pay a certain known rate of flow of income at known periods over that lifespan of the bond.

Alex Lieberman:

To build on our theme of planning for a future of financial success, we also discussed the ins and outs of how to best prepare for your golden years.

Episode 5 Recap Audio:

True retirement readiness, it's about more than just saving in investments. It's about what your life is going to be like. So it's living and aging well. And when it comes to the topic of retirement, we always think save for retirement. That's the journey, that's the mission. And we get there, we feel great. That's the finish line. But in reality, it's really just another starting line into another phase of your life. So it's very important to be thoughtful and planful with how you are saving and investing in what you're going to do when you retire because now you're in that distribution phase. I call it the go-go versus the no-go years. You want to make sure you're ready to go.

The good news is no matter what your situation is, you can help improve your retirement readiness and potentially the lifestyle that you can have in retirement with building out a plan, implementing the entire plan and being a disciplined non-emotional, but a disciplined investor.

Episode 6 Recap Audio:

When you think about it, AI has really become like table stakes for innovation and disruption. And so we do have disruptive ETF strategies that give you some exposure to AI. And they focus on disruption in five key areas that include medicine, technology, automation, communications and finance. And like I said, AI shows up in some form or fashion in all of these strategies. And for example, disruptive medicine, you may have heard of precision medicine. So we're now harnessing big data to come up with custom treatments for illnesses like cancer. Moving from this one-size-fits-all to every treatment, to now having more customized medical solutions because of AI.

Alex Lieberman:

We really love taking our time talking about AI. Here's the next one.

Episode 7 Recap Audio:

Financial advisors can definitely benefit from a good generative AI tool because there's just so much information. If they can have a tool that could give them that insight that they need right then and make it easier to find what they're looking for, we talked about efficiency, that makes them a lot more efficient and they can help their clients even better.

Alex Lieberman:

To top off season four, we chatted about the various life stages of investing from maintaining a portfolio while paying off student loans as a postgrad to consolidating your bank account with your significant other upon marriage.

Episode 8 Recap Audio:

The communication, that is key. It sounds so simple. But if you aren't talking about your money, if your spouse doesn't understand how much you make, if your spouse does not tuned into the goals that you have in life and vice versa, what they have in life that can cause trouble. In fact, one in five couples tell us that money is the top stressor and the top reason that they argue in their relationship. About half have told us that they've had an argument about money. Candidly, I actually think that's pretty low. But again, so we constantly see that lack of communication, that money in a relationship if you aren't having those conversations can cause problems. So that would be my biggest recommendation is that even though it may be uncomfortable, those conversations need to happen.

Alex Lieberman:

It's really amazing returning to all of the insights that we've covered this season. Whether you're gearing up to incorporate them into your actual portfolio decisions, or using them as signposts to guide your investing mindset, each of these lessons is relevant in the current market and beyond.

Okay, now it's time to hear from our listeners and run through our audience Q & A. Like last season, we had a massive response from our audience survey, as well as some great questions that came through our new audience hotline. We tried our best to cover as many listener questions as we could, but we simply couldn't pack everything in, given the volume of responses. So we're going to take this opportunity to answer some questions that we couldn't get to earlier this season. John, you ready to do it?

John Gagliardi:

Ready to go.

Alex Lieberman:

Okay. Let's start with the first question from our listeners about investments and different risk profiles. What investment vehicles are best for different risk tolerances?

John Gagliardi:

Well, there's something for everyone. That's good news. So let's pretend that we're working on a scale from lower risk to higher risk. So the lower risk would be bonds, and then once you graduate from bonds, you'd be looking at maybe preferred stocks, and then maybe mutual funds, ETFs, which are diversifiers. And then you're looking at maybe individual stocks and you can go to the extreme of options and alternative investing. So there's a scale where there's something for every investor.

Alex Lieberman:

Well, can you start it with lowest risk investments? Because I think at least for my age group, there's so much focus on the equity markets and single name stocks. But people don't realize actually the bond market is bigger than the stock market, but it's just covered in a different manner. So can you start with the lowest risk investment?

John Gagliardi:

So the stock market has 10,000 issues. The bond market has nine million individual CUSIPs. It's huge. And that includes issuers like the federal government of the United States, Treasury bonds. That would be your lowest risk investment because it's backed by the good faith and credit of the US government. No different than the currency is, except it pays interest.

And when you buy a bond, what no one realizes, you're just lending the money to the government and at maturity you expect to get that money back. Bonds are, you're given at a thousand dollar increment and the interest is paid semiannually, it's spoken of annually, and that's the long and short of owning Treasury bonds.

And then from there you could scale up on the risk, but that's what people consider risk for investing. But of course there is no such thing as risk-free.

Alex Lieberman:

Totally. The next question is from our listeners, but selfishly I'm very excited about it because I'm someone who was recently married. I hope to have a family in the coming years. And I'm always thinking about what does it actually look like to be setting up your family or specifically your kids for a life of financial freedom. So for a listener like myself who is looking to do the right thing for their future kids, how can I start investing for my kids today? Or how can someone do it when they've just had a child?

John Gagliardi:

So there are plenty of account types that are tax-advantaged for investing for minors like UGMA accounts, 529. So a UGMA account stands for unified gift to minor's account where you're putting in investments and those can grow tax deferred. And eventually once those funds are used, then you're paying the taxes on the way out. Or a 529 account which you set up through any of the states, and you are putting those funds in specifically for college, it's for higher education.

But what I did for my kids, I actually did zero-coupon muni bonds in my taxable account. Now I'll break that down. So muni bonds to start with, those are bonds issued by a state or municipality and you can buy them and they're tax-free in the state you live in one of the regions in the United States like D.C., Guam, U.S. Virgin Island, Samoa. So there's all these different ways to grow those tax-free in your taxable account.

And the other reason I did that was the idea of having zero-coupon. Zero-coupon means I'm collecting no interest. So I'm thinking about the dates when I'm going to have maturity are going to fall hopefully just when all the tuition is due and I'll have a lump sum ready for that date. Now of course, there's no perfect investment. I don't know exactly what the tuition will be. I don't know if my kids will go, but that's okay. I have four kids, one kid doesn't go, oh, I could just roll the bonds to the next, then we could do this ad nauseum. But I have full control that way. But there's really no end for all these different ways of doing it. But I'd always start with ask your financial advisor whether it's account types or a mixture and what best suits you.

Alex Lieberman:

Yeah. Well, so it sounds like one piece of education that's really important is just understanding what tax advantage accounts there are for investing money for your kids. And then in the example you gave of zero-coupon muni bonds for your kids, it sounds like the dual benefit was tax advantages as well as having some level of flexibility, or optionality given you have four kids that will be going to school and that you can be using these bonds as a lump sum payment to contribute to.

John Gagliardi:

Absolutely.

Alex Lieberman:

Let's talk now about one of the asset classes you talked about a minute ago, which was options. We were talking about the scale of risk depending on what your risk return profile is as an investor. Obviously you put some emphasis on Treasury bonds and you talked about the low side of risk. Let's talk about the high side of risk.

How do you think about options as an asset class to invest in, and does your thinking at all change given the market we're sitting in today?

John Gagliardi:

So Alex just went to 11. He went to 11 on the scale. So we went from one extreme right to the other, and want to hear my joke about options.

Alex Lieberman:

Let's hear it.

John Gagliardi:

If you want to make a small fortune trading options, start with a big fortune and we will whittle it down. But every joke is funny when there's truth to it, and the truth to that really stems from, who are these investors that start in the option market? Generally, they're people that came from the stock market and how are people generally successful in the stock market? Two things, they buy and hold in long-term, and they enter the options market and they quickly find out there is no long-term. These are contracts. These contracts can and most do expire worthless. So if you are a buyer, this is counterintuitive and there's no long-term. It's hard to be a buyer. Well, what are my alternatives?

So the first thing I'll usually talk to clients about is covered call writing. That's like the very basic beginner strategy of options. And by being a covered call writer, you're really doing the opposite of everything you're doing in the stock market. First you have to have the stock to base it on. So covered means you own the stock.

And the other part by writing a covered call or selling a covered call, you're saying, "I'm thinking short-term and I'm willing to give somebody the right to take away my stock." So you are a seller, you are short-term bearish, and it's really everything opposite of what you were taught to do in the stock market. You are completely reversing that to start in the options market.

And then of course there's plenty. There are dozens of other strategies, literally dozens of strategies. But that's a good place to begin your research. And the options market being fraught with risk, buyer beware. It pays to pay intuition by reading books, attending seminars, meet with your regional brokerage consultants at Fidelity. There's plenty of folks who are willing to help you to understand these markets before you invest. Tuition by trial and error is a lot more expensive than reading books.

Alex Lieberman:

Totally. Yeah, I love that. Going back to another question that you talked about a minute ago. You mentioned that at least the way that you approached investing in your kids was through the zero-coupon muni bonds. Munis are generally thought of as a tax advantage to asset class. Can you talk about some other investment opportunities that have tax benefits as well?

John Gagliardi:

Yeah, so you want to hear my joke about tax reinvestment?

Alex Lieberman:

It sounds like you have a joke for every asset class.

John Gagliardi:

This stuff can be so dry.

Alex Lieberman:

Yeah, I love it.

John Gagliardi:

So the way to invest tax-free and guarantee you'll pay zero tax, well, somebody will pay zero tax, you die.

Alex Lieberman:

Yeah.

John Gagliardi:

If you die, your descendants or whoever you're donating your money to, they'll inherit your assets.

Alex Lieberman:

They have to deal with the taxes.

John Gagliardi:

Yeah, but it's tax-free because they can get the cost basis on the day of your death. So essentially if they sell on that same day, it's a tax-free capital gain, and life moves on, right? They've got the cash, they pay zero taxes. But that's no fun for you. So let's jump ahead and then the thing is defer, defer, defer. By deferring the taxes eventually you'll have to pay, but let's start with your 401(k) if you're working.

If you're in your 401(k), what you want to do is max out. Max out even if it's a little painful, you want to max out and max and match. If you're so lucky to have an employer who's willing to match your 401(k), at least max out to the match, so this way it's free money. Take advantage of that.

And then from beyond there, eventually when you retire, you can open up a rollover IRA, you can roll your 401(k) into that rollover IRA. And guess what? It's still deferring. It's still tax-free while you're compounding. And it's just going to allow your assets to grow that much faster.

Now in the IRA, you now have freedom. You now have the freedom you can invest in individual stocks, ETFs, if you so choose. You've got a world of other investing you can do. So the easiest thing to do is just think, "How could I forestall the taxes till the end?" And then eventually MRDs, minimum required distribution means taxes for you are at 72, you turn 72, you have to start withdrawing. And it's a percentage based on when they think you're going to die.

It all goes back to that because their expectation is when you are gone, they want to have that account depleted. And if you're not, it turns into a DBA IRA and your kids can inherit it and they can keep that tax-free party going.

Alex Lieberman:

Super interesting. I feel like an entire Fresh Invest season could just be dedicated to tax strategies and tax-advantaged investments because there's just so much there.

John Gagliardi:

It's like there's the rules and then there's a million loopholes. The rule is you have to pay taxes. Now here's a million ways you can try to not pay taxes or defer taxes.

Alex Lieberman:

Right, right. Super interesting. I want to now hear about your experience and what lessons that you've had from being a retail investor that you can pass along to our listeners who are also retail investors.

John Gagliardi:

Oh, so many lessons. If I had to boil it down and I had to, let's grind it right down to two things. I would say the two things are be patient and ignore the wall of worry.

And the first thing, patience. For the most part, markets move really slow. It's so hard to figure out what they're doing because they don't move quickly.

Now, there's exceptions. In the last five years, investors have seen things that have not been seen for 100 years. COVID, great example. Markets move fast, but that's the exception. That's a once every 100 year pandemic. Don't expect that all the time. If you want to see normal, look at 2022. 2022 in October, the market was down 28%. Okay, that's a little deeper than normal and it took 10 months to happen. It just grinded its way slower and it tested the patience of every investor. That's normal. When you're stressed out about it, normal.

And the second thing is ignore the wall of worry. And again, a great example this year. Whenever I have investors, they're always like, "But John, what if?" Fill in the blank. What if? What if? And there's a million what ifs. So for last year, my joke is, well, what if the Fed raised rates 12 times in 16 months? What if that happened? How should the market look if that happened? And people look at me, they're like, "Well, that did happen." I'm like, "Yeah, we're 7% from the highs."

This is between COVID and that. We're talking about two of the worst news cycles in the history of markets. You have to go back to 1982 to find a fed moving this hard, this fast, hard line, no exception, and just hawkish all the way. And usually that'll corrupt and destroy markets. Mark and Jurrien Timmer said it, amazingly resilient, 7% from all time highs after that. Yeah, you have to be patient. If you weren't patient, you're a victim to it instead of taking advantage of it.

Alex Lieberman:

Yeah. It's so interesting because my guess as a listener, when they heard me ask that question to you, they were expecting something around fundamental or technical analysis, or certain investment strategies. But actually the two things you talked about, patience and the wall of worry could be boiled down into a single lesson, which is managing your psychology. And it's so interesting that somebody who's been in the industry for so long, what you're basically saying is if you can control yourself and your own psyche, you're doing 95% of the battle of being put in a good position as an investor.

John Gagliardi:

100% it's emotion. The reason why it's so hard as an investor to control your emotions with your own money, that's why people hire money managers. That's why people hire financial advisors because they need a third party who's indifferent. They're looking at the facts, they're looking at the long-term. And they're calming you down every time you have a freak-out because the wall of worry is always there, and that's why I say ignore it. Now, that doesn't mean put your blinders on and you're going through COVID and you don't readjust your portfolio. Rebalance, you do common sense things. But what you don't want to do is at every bad news cycle, you want to sell everything because you'll really get nowhere.

My other thing about that is if you looked at the last 50 years, a long time. If you looked at the last 50 years and you really took a look at how markets trade over the last 50 years, there's really three and a half years to worry about. 2001, 2002, 2008 through the first quarter, 2009. If you avoided those three years, you could have beat the market pretty heavy handily, but the other 47 years were great. Then that's pretty good. Show me something with odds that good and I'll believe in it.

Alex Lieberman:

Yeah, I think that's spot on. Now, the last question we have from our listeners, these are probably the folks that aren't slinging options and doing deep options research like we were talking about earlier. These are folks who are listening to this podcast as a foundation for starting to dip their toes in the water, that is investing. What would be your thoughts for them on how they can just get started where this entire space of money, thinking about how to put your money, it feels so daunting. Where can they start?

John Gagliardi:

Again, I like to boil things down right to their basic. And I always think IRA plus indexing. So let's start with the IRA. The IRA, I think we covered already. But the idea of growing that money tax-free. If you're in a 30% tax bracket, imagine running a race but having 30% of it taken away on every lap. You're just not going to run as fast. So growing your money, meet with your accountant, meet with your CPA, and discuss what is the right IRA, what's the right vehicle for me? They'll first probably ask, "Do you have a 401(k)?" And then go through, there's several different IRA options.

Once you figured out what the account type is, the next thing is what's the index that is right for you? Of course, there's no shortage of indexes. But I always like starting by talking about the S&P. And why the S&P? The S&P is by design fully diversified. It is actually picked by a committee. Most investors never know this. There's a committee that meets that decides the name, so there's a human factor. I like that. The committee is smart. They know what they're doing.

The second thing is, it's market cap waiting. Now, market cap weighting. Whenever you hear about this on financial media, they always talk about the top 10, the top 10 of 30%. It's drowning in those top 10 names, and they make it sound like it's a bad thing. You know what no one talks about? The bottom 100. The bottom 100 is about three or 4%. So if a name from the bottom 100 goes bankrupt, as we did see with Silicon Valley Bank or First Republic Bank, they were 1/100th of a percent of the portfolio. 1/100th of a percent is-

Alex Lieberman:

Yeah, you're protected by design.

John Gagliardi:

... By design, you had risk management. So even if the bottom 100 names went bankrupt, which would be astounding, you'd be down 3%. I think we were down 3% last week. It's inconsequential. Now, if all 500 names would go bankrupt, we're talking about Apple, Microsoft, Google, Amazon, Tesla, JPMorgan Chase, ExxonMobil, Johnson & Johnson.

Alex Lieberman:

That happens. We're not in this room recording a podcast.

John Gagliardi:

Yeah. I tell people, if that happens, don't worry about money. There won't be any.

Alex Lieberman:

Love that. Well, John, it's so good to have you on the podcast. You're always just a wealth of information. Thank you so much for the insights, and congrats on being the first ever to complete the Fresh Invest's superfecta four times on the show.

John Gagliardi:

Superfecta, the Connect Four.

Alex Lieberman:

I love it, the Connect Four. Thanks so much for joining the podcast.

John Gagliardi:

Hey, I'm looking forward to five.

Alex Lieberman:

Thanks for tuning into the season four finale of Fresh Invest. This was such a unique, important season and I hope the learnings we shared today help you feel more confident when it comes to planning out your investments and your finances.

This season offered both timely and timeless financial advice through actionable insights on navigating today's challenging market with the end goal of setting you up for future success. It's no secret that the market is tough these days, and that can lead to some pretty serious investor fatigue. I hope the learnings we shared this season have helped mitigate those feelings. Uncertain times remind us that the better you plan your finances, the better you feel about your finances. That means thinking deeply about your short and long-term goals, considering different investment options that fit your needs and adequately planning for retirement. And on a larger scale, keeping your finger on the pulse of the market and understanding how it can impact your financial plan.

If you haven't listened to this season in full yet, go ahead and check out the episodes that led us to this conclusion. Regardless of how much investing experience you have or what strategies you employ, the insights we gathered are pertinent across the board.

Thank you all so much for joining me on another awesome season of Fresh Invest. I've had so much fun chatting with our friends at Fidelity, and I wish you all the best of luck in the markets. And just remember, it's a marathon, not a sprint.

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The municipal market can be affected by adverse tax, legislative or political changes and the financial condition of the issuers of municipal securities. Although state-specific municipal funds seek to provide interest dividends exempt from both federal and state income taxes and some of these funds may seek to generate income that is also exempt from federal alternative minimum tax, outcomes cannot be guaranteed, and the funds may generate some income subject to these taxes. Residency in the state is usually required for the state income tax exemption. Generally, municipal securities are not appropriate for tax advantaged accounts such as IRAs and 401(k)s.

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Alex Lieberman:

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