Trending or Trapped? The Truth Behind Viral Financial Advice [Ep. 18]

Transcript

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Forget about the noise. Don't let the noise derail you. The noise of social media derail you from sticking to a proven philosophy, investment philosophy, that's worked for over a hundred years. That's the hardest thing is trying to step outside of yourself and control your own emotions.

(...)

All right, welcome everybody. Welcome to another episode of GDS Unplugged. I'm excited today for the topics one because I have a new guest that we'll introduce here in a second, but also because of the topics. We're going to talk about social media and the hottest fads, what you're seeing online and how they're, you're getting, trying to get convinced to invest in these. We're going to talk about meme stocks. We're going to talk about private equity. We're going to talk about private credit, how AI, which is a huge topic these days, how AI is affecting the investment world. And we're going to talk about robo advisers. So, we've got a lot of stories. We've got a lot of content to cover. But before we jump into that, let's welcome Sebastian Carrillo. Before he talks about himself, let me just go ahead and tell you, Sebastian has been with a Glen and I in GDS wealth management for a number of years now. And he is in his mind, a self-proclaimed CEO, self-proclaimed executive of GDS.

He tries to get his own parking place when we've told him it doesn't exist. But Sebastian, welcome. Glad to have you on the show today. Thank you. Thank you. I appreciate you guys inviting me on and the chief entertainment officer. First of all, that's the title. That sounds a little bit more accurate. Well, why don't you, I think they know a lot about, the audience knows a lot about Glen and I. Why don't you tell them something about yourself? Sure. So, I'm originally from the San Francisco Bay area. We won't hold that against you. Well, I hope not because Niners have had the Cowboys numbers for number of years here.

(…)

But originally from the San Francisco Bay area, my parents immigrated from Central and South America, (…) was a Baylor alumni, sic ‘em Bears, and entered into the finance world really as a result of kind of the hardships that I went through growing up. Right. My family moved here in the Bay area. Real estate is a hot, hot market all the time. Right. But in 2008, 2009 financial crisis, we lost absolutely everything. And I remember living in motels, the Sunday Inn, the La Quinta Inn, right. I can give you the best ones to go to because I lived there for three years. I lived with family on couches for a number of years as well. So that's really what drove me to enter into this space was being able to in some way, shape, or form be that adviser for someone that my parents didn't have or know to have. Right. They were just investing in what they knew and what they made a career in. And so that's kind of what's driving me today. And I appreciate you guys having me on here. And I'm excited to get into what we have. Yeah, it's our pleasure. I've always loved your story. So, thank you for sharing it. And for those of you that don't know, by the way, Robert did my wedding. So that's, that's, you might, you might say I'm the self-proclaimed CEO, but actually, I officiated your wedding. My father was a minister; my grandfather was a minister. So, it just came with a territory. Perfect. Well, all right, let's jump in. Let's get started. Yeah, absolutely. Well, for one, again, thank you for letting me on the podcast. What we're going to be seeing in the next 20, 25 years is the greatest wealth transfer known to history. How's that? (…) Well, let me ask you a question. What's the largest generation we have in the entire world right now? The baby boomer generation. And before you say it, no, that's not my generation. I'm actually a few generations less than that, but they are the greatest generation ever. I couldn't tell if the gel was giving you the gray hair or if what it was, it was just early onset. Is that right? Yeah. Okay. Gotcha. Well, the greatest generation known to history, the baby boomers, right? The largest generation that we have, the largest generation in the workforce right now. Right.

(...)

In the next 20, 25 years, as they get older, there's going to be a transfer of wealth to the Gen X, the millennials, some Gen Z, right? And we say transfer wealth, we're talking about, unfortunately, they'll be passing away and leaving it to their next generation. Okay.(...) And these newer generations are coming up in a different world, right? It's not as they were getting out of the World War Two as the baby boomers were doing, right? It's a brand new technology, technology that's breaking how society normally interacts with thinking about AI, we're thinking about social media, right? All these different things that are now potential obstacles that are changing the way that people think by different generations. So today we kind of want to speak to those that are still in the workforce, right? Are going into the workforce and are going to be seeing all these different things on social media or whatever news outlet that they get information from to help make the best decisions for themselves. So why should we care about that? Why is that we're talking about how it can be dangerous. Can you give me any real world examples on how that was dangerous and kind of the shortfalls of it? Sure. Well, I'll pick on one being from the Bay Area. I kind of claim Tom Brady as like Hall of Fame, Hall of Fame in football, but also from the Bay Area. FTX. For people who don't know, and I know it's a big story, but not everybody watches the news, which is probably good for them. So what actually happened in that situation? Sure. So Sam Bankman Fried, he was trying to create the first global exchange for digital assets, right?(...) And you saw commercials with Tom Brady, again, the goat of the Bay Area. I'm in. I'd vote. I'd invest. I know you're trying to pick up after his skincare routine. Yeah, absolutely. Yeah.(...) But Steph Curry was invested as well in a plethora of other high influential names. And turned out not that long ago, he got sentenced to 25 years in prison for scandals regarding fraud and a lot of other misleading things within the business. And then he tried to leave to the Cayman Islands to try and skirt all that. And they just went and got them, right? The American way. But yeah, so things like that. Now, again, Tom Brady isn't hurting, right? He's still commenting on football games, right? And he still has a share of the Raiders. So he's doing just fine. But just wanted to hit on some of the things that similar to FTX could be out there and could potentially ruin your financial goals, your financial picture. Yeah, so we talk about FTX being a one off, but there were other things, right? When we talk about meme stocks, we can go back to, what was it, Reddit or TikTok or the whole GameStop fiasco and the AMC. Talk about that. Sure. Well, I don't know if you subscribe to Netflix or but there was a whole movie about this, right? Through my phone company. I'm still a bargain shopper. So I like the phone company paying for it. Okay. Okay.(...) But there was a there was a short squeeze on GameStop and AMC. Long story short, the movie of it was this guy that was very famous on Reddit pages. I'm not a Reddit user myself, so I'm not too familiar with the platform. But long story short, there were hedge funds trying to put trying to short the stock for AMC and GameStop because they were eventually going out of business. This was after 2020 when nobody was going in to see movies in the theaters. GameStop was starting to shut down a lot of stores, right? So they're betting on those companies failing as a result of that. And he saw a lot of value in those companies. And so there was a whole wave of retail investors that were trying to short squeeze these billionaire hedge funds by buying a ton of the stock, right? There's only so much stock of a company that you can own. So if you buy a chunk, it's going to drive up the price a little bit artificially raising it. Right. Right. And so they drove it up to the point where these billionaires and I think I can't remember was one of the one of the funny names. One of the funny comedians was like playing the actor of a of a or the role of a billionaire hedge fund manager. And they were losing billions of dollars every single day. And there was there's a famous line of literally hold the line of holding on a GameStop and AMC. And so there's a character. There's I think it was a nurse or some health care professional that was invested in GameStop. And she was saying, it's going to the moon. Right. And I think Netflix did a good job of putting like a little value, like an invisible value. Of how much her position was worth throughout the movie. Right. At one point, it was 200,000. She could pay off all of her debt. Right. And then towards the end of the movie, after that whole fat ended, it was like negative. I know it was in the six figures. I don't know how much it was, but it was it was a negative value and what that position was. And she was still helping people in the hospital. Bless her soul. But there's just too many instances of that. Yeah. So forever, you always hear about the winner. Is that right? You always hear about the winners. And there's that one main character. You always hear about those people that win, but they were artificially inflating the stock. People came late to the party. They were buying up here thinking it was going to continue to go up. It crashes. And so you hear about the one, two, maybe a dozen that one, but you don't hear about the thousands that lose. And that's where the means come into play. What about? And I know this is kind of your generation thing, but NFTs. Yeah. Well, I again, I didn't invest in NFTs. I knew better, but I had I had friends that were making the money. That were making their own NFTs. And it was just a picture of like a chimpanzee with a hat. And they're trying to promote it and try to get value off of it. The way that I would think of it for those that don't know what NFTs were is just think of it as a digital art collection. Right. So you don't own a tangible piece of anything. It's a digital something. It could be a picture of a smiley face. Yeah. All right. That could be an NFT. I bought one of those. That was it of your face? Well, no, it was a smiley face, but it didn't cost it. It's not worth anything. Dang it. So, so why do you think? Depends. Are you asking about like, is it worth it in your heart or like in reality? It has an emotional connection. Okay. But so why do you think many people fall for the latest, greatest hot investment out there? What's the deal? What's that emotional connection that makes them want to do that? Ultimately, it's going to come back to psychology about the fear of missing out. Right? FOMO. FOMO. People think, and good job using an acronym. Good for you. I live in Flower Mound, so it's Flowmo here for Flower Mound, but you know, I'm keeping up with your generation. That's all I'm doing. Okay, Robert.(...) But the FOMO, in essence, they came to a point and keep in mind, and I think a lot of people know, but these apps are designed to keep you, their algorithms, all of how they're built is designed to keep you on the app for as long as possible to try and hit you with as many ads or subliminal micro suggestions to get you to eventually buy a product. I'm guilty of it. I bought a 49ers jersey, like in the off season, right? Because there was a 20% end of summer sale, right? I'm guilty of it. And I'm sure other people are, but they're designed to do that. In addition to that, they're going to show you things that you're interested in, like financials. And eventually, it'll get to a point where people are seeing other people that maybe aren't as ahead of them, or maybe aren't as intelligent as them, but they're getting value and they're getting richer a lot faster, right? So people, in essence, are kind of looking at them like, how is it that you're getting ahead of me faster? And I did things the right way. And so they feel like it's, it shouldn't be that easy to get that far ahead. And so then they want to get involved on it. But they mistimed it. You should have been doing it well before it was popular, written it up and then sold it off at the top. But that's too simple. It's a lot easier said than done.(...) So many of these, especially the younger generation, is looking at these means and going, okay, I don't want to miss out on something. But who's actually posting this stuff? Is it licensed financial advisers? The short answer is no. Okay, so my guess is going to be influencers. 80% probably. If I had to guess, it's going to be a large majority.(...) But it's drastic. It is. It is. So unlicensed, non-fiduciary people posting stuff. But why do they care? What's in it for them? Well, they're going to get paid on how much traffic they get onto the app, right? It's all about click paid these days, right? Think about it this way. If you were driving down the road and out of nowhere on your way to work, you'd be like, "You know where on your way to work, you just saw a purple elephant on the side of the street." You're going to glance at it, right? You might glance at it a little bit longer than you should. And then you're going to rear end somebody, right? Hang out with him. Take some pictures. Okay, yeah, sure. His name, top name, right? You see it on the highways, right? If there's a car accident on the side of the road, there's going to be traffic involved because people are all going to want to see what happened because it drives their curiosity. The same thing. They're just trying to drive traffic. They're trying to drive clicks to try and promote how much traffic gets onto the app, and that's how they get paid. So, and of course, this is not my generation thing. I'm starting to learn more and more about this, especially having young kids and what I need to protect them from in the future. But these influencers, the more clicks they get, the more money companies pay them. And sponsorships, right? You know, there are some financial influencers that what they're saying is valid and what they're saying is factually correct. There's some that are just trying to try out trends to see if they work and post about it so that people don't have to go through, you know, an FTX situation, right? So all those different things. It's just trying to drive curiosity and get those clicks. Okay, so let's switch gears a little bit because we're talking about the meme stocks and how people can become victim to that. And you'll only hear about the lucky ones.(…) What about when you see an advertisement on Facebook or TikTok or whatever the kids are in through these days? Instagram. Instagram on, I don't have hardly any of them, but on PE, like private equity, private credit investments out there. I know kind of those algorithms, once they see that you're interested in this stuff, then they start hooking you into other things. Let's talk about private equity and private credit. What it is, let's go with the definition of what it is for people that don't know. And then what, why people get hooked into that. Sure. And why it may or may not be a good thing. So to start out, private equity, think of it like someone trying to fix and flip homes, but for businesses, right? Similar to how we work, they're trying to manage a pool of investments, right? But they're going out and they're searching in the private market, so not publicly traded companies. And they're trying to find businesses that are underperforming in a sector that has really large margins or they're trying to find some company that could use an investment of some kind. They're going in there, they're getting a stake, they're implementing their strategy, they're revamping the whole business to make it more lean, more profitable, really getting those multiples a lot juicier so that when they sell off the business, that's where they get their returns, right? Now, sometimes they lock up, there's a contractual period for how long of a period of time you can have your money invested into those, right? It could be 10, it could be 12 years, but the general idea is that you're handing over your money and they're investing it into a private business that needs to get revamped and can get sold off for a lot higher multiple. What's wrong with that? Yeah, it sounds exciting. It is, it is. Now, on the flip side, the other exciting part is private credit, right? And think of it like hard money lending in the real estate world, right? This is where they're offering lending solutions to where either banks can't do it or where banks won't do it for a higher yield, right? So these private markets, they can provide greater than public market returns and over the past, in this century alone, they have. But it's at a much higher risk than people maybe let off to seem or maybe may understand it's a lot more risky than your public markets. Okay, so I know I was reading an article one time that said 85% of private equity investments out there don't pay within that 10 to 12 year contracted window. Is that true?

(…)

So, if 85% are missing the mark and maybe they still eventually pay out, but now whatever you're guaranteed to return on, if it's spread out over more years, then your average return is even lower. So, it's not that attractive. So, if they're so good, then why do 85% of a miss and why is it still attractive? What's the what's holding that return up? So, it's going to be it's going to be the top the top quartile, the top 25% of all the of all that industry. Well, I'll just invest in that top 25%. Oh, there's hold on, there's caveats to that, right? So, a few things. Number one, the top 25% is what is getting all the hype, all the headlines, right? It's getting the Hollywood attention, right? That's what's going to be driving the popularity behind it. Now the other 75% and keep in mind, there's really high fees involved with this type of investment, right? They need they need it. They need to fund their living as well. I get it. But the other 75% more or less will either stay in line with the markets net of fees. We talk we tell our clients all the time, you should care about your net of fee return.

(...)

They either keep in line with the public markets or some of them underperform. Right. But if we're talking about, you know, it sounds sexy. I want to get involved in it. I want to beat the market. Right. Everyone does. Everyone does. It's the human condition. Right. But in reality, there's levels to that space as well. Right. They have to realize that the 75% may not beat the market at all. But they're hearing about the 25%.

(...)

But can't I as an everyday investor get the 25%? Do you have a hundred-million-dollar net worth? I mean, not yet.

(...)

But maybe one day. There are tranches to what offerings are available to people. Right. So, if you. So, the uber wealthy. The uber wealthy. Really, if you want. Jeff Bezos out there, he can get what I can. Exactly. It's kind of upsetting, though, when you think about it, because this is a way for billionaires, already billionaires, to just stay billionaires. But the everyday investor can't get into it. It can be. Well, the thing is, so over the last three or five years, more or less, the private equity space, the private market space is becoming more accessible to the everyday investor. Right. This is through ETFs. This is through pooled funds. So, you get hundreds of thousands of people to pool in, you know, 50,000, 40,000, 100,000, whatever. Not a large investment like a sovereign wealth fund would do. Right. And that's how you build up a pool of investments to go by potential companies. I've gotten ads for that, by the way. So, I've gotten ads for I think it was a solar powered lawnmower, basically an outside Roomba. You don't have one of those? No. No, no, no, I don't. I don't. I don't need one. Maybe we're the only ones.

(...)

But think about it like this, right? The people that are getting targeted with the with the space X's of the world, the Snapchat's of the world. I've got a personal story about that we can get into later. But these are endowment funds. I'll pick on Baylor University. When I was working as a part of their apprenticeship program for students to manage part of the endowment fund, right? It was at $2 billion.

(...)

That's a lot more attractive for the highest tier of offerings than it would someone with, you know, five, $10 million to them, right? As a private equity firm. So, if you don't have a net worth of $100 million or you're not part of a sovereign wealth fund, you're not even getting an invitation to the table. Even if you have-- Not that table. Not that table, right? If you have maybe--and again, this is a general assumption. But if you have around $30 million in net worth, you can maybe get your ear to the door of that closed door conversation. If you know a guy who knows a guy, maybe you can get in a little bit. But you're not getting that top 25% of offerings at a retail level. I think it's important for people to know that in investing like anything else, you got winners and losers. And for the winners, (...) there has to be a loser. That's how they make their money. So, by the time--that's how it appears to me. By the time the big players are already in the game, and they start promoting it, they start opening up to the smaller investors, they're just boosting their own stock, their own value, so that they can sell out. It drops and just like GameStop, just like AMC, the smaller investors hold in the bag and they're out. Well, you've been a part of some of the meetings that I've been in. We've had people come to us that were invested in some sort of private investment. They put in $100,000 that just turned into dust, right? And maybe there's some that lost 80% in their value and they're asking us, "Well, how do I get out of this?" Sadly, it's some of my favorite clients because everybody, even myself in my 20s, I got burned a few times and I'm glad I learned that lesson early on. My heart breaks for when people learn that lesson in their five years leading into retirement because then it's not as much time, depending on how much you risk, to gain it back. I love those clients because once they've experienced that,(...) then they go back to the old Warren Buffett way of thinking, the old, over 100-year way of thinking, "Keep it simple, stupid," and I can't say stupid at my office, it's a bad word, but keep it simple, stupid. Grayson and Beckham, cover your ears, all right? Yeah. Go for quality, consistent investments that have stood the test of time. The thing is, I think that the allure of it, right, there's an illusion of access

(...)

with these ETFs, with these pooled fund offerings.

(...)

Think of them like a go-- you've heard of GoFundMe, right? Yeah. It's like a crowdsourcing, right? I've got one if you want to donate money to it. I'll think about it. I'll think about it. We'll see. It's not for anything in particular. You just want to see if you want to donate to it. Exactly, exactly. But that's that illusion of access, right? Again, you get what you pay for, and we'll get into that in a little bit as to some of the other topics that we have.

(...)

The way that I would think of it, if you have $2, $3, $4, $5, $10 million, (...) right, that's going to mean a lot more to you than a sovereign wealth fund with $10 billion. They can afford to throw in $5 million. Again, if it turns into nothing, great. They still have billions of dollars to go, right?

(...)

It's one of those things where it sounds sexy because it's where the smart, elite money is going. I have friends that are in the industry. They do a really good job. They work for great firms. They get returns. But again, all the numbers are skewed. (...) But whatever the sovereign wealth funds are getting versus what I'm seeing on my Instagram ads, for example, they're both marketed as private investments, but it's not the same. It's not the same. But huge topic today. I know we wanted to talk about AI and how investing in AI and how it might be threatening some jobs. And it kind of sounds similar to how robo-advising was 10, 15 years ago. Talk to me about that. So, for those of you who might not know what a robo-adviser is, robo-advisers actually came out in around 2008 during the financial crisis. It really became hot in 2010 and after it. But it was a way for algorithmic trading, for a cheaper way of trading to be offered to the retail client, to the open public. And what's interesting is it seemed like a hot topic of what we're talking about today. (...) And they were going after people, as you mentioned in the opening about your family in 2008 and 2009, losing everything. This was a way that Wall Street could continue to get rich and offer something to somebody that got a new way of thinking that could get them to invest with them that seemed a lot cheaper. Problem is, it didn't work out that well. It's algorithmic trading that doesn't have a brain behind it. It doesn't have emotions. So, a flash crash of the market could change things. So, I remember, in fact, I'll go back and tell you a story. There were two gentlemen. They were friends, both in their mid-60s. They came into the office one day. We went through our whole process. Again, this is about 11, 12 years ago. They came into the office. We went through the first meeting, financial plans, second meeting, everything. The first gentleman decided to become a client. He saw value and a little bit higher of a fee, but with the planning, tax strategies, everything we offered. His buddy, respectfully, loved us but declined. He was very blunt about it. He goes, "Guys, I just hate paying fees, so I want to go for the bargain." I get it. I'm a bargain shopper to this day. I still look for bargain deals. I still, when we're shopping for vacation, look for the best deal out there. So, I get it. I can't complain on what he's doing. You also pay for what you get. Let me ask you, not to get too personal, but I know within the last two years, your dad had surgery. Heart transplant. Heart transplant.

(...)

I'm so thankful that he made it. He got a donor. He made it. Me too. I'm guessing that he didn't get a Groupon doctor. No, he did not. Fortunately, he was able to apply for certain programs. Being originally from California and the Bay Area, there's a lot of prowess in Stanford and I'm thankful that he was able to be a part of the Stanford hospital program where he got that surgery done. So no, he did not get a Groupon for that heart transplant. Right. So, you have faith for many people, (...) family, health, finances.

(...)

So, if you wouldn't go get a bargain deal for something as important as your health and family, why are you getting a bargain deal for finances?

(...)

Right. So, the reason I bring that up, it only took about two or three years. I can't remember this a long time ago, but about two or three years after this client turned us down or this potential client turned us down and his buddies still working with us. He calls us up out of the blue and goes, guys, I want to meet again. And we remembered him. We keep notes on everybody. And we go, okay, but you were doing the robo adviser and goes, yeah, I've been tracking my friend's performance and my performance. And in the bad years, (...) I did really bad and I know you were able to limit losses. It's not that we weren't down, but true wealth managers show their wealth, show their experience in the bad years. It's not the great years. Everybody should make money in the great years, but they showed their expertise, or we showed our expertise in the bad years. So, we lost a lot less in the market. Well, then the next year market was a little up. Now, maybe we left some on the table, but because we lost less than the market during the negative years, we were still ahead. (...) Well, his net returns were much less than what we were able to achieve for his friends.

(...)

Think about that. We made more returns with less volatility. These gentlemen were in their sixties, getting close to seventies. I don't know about you, but money gives people a lot of anxiety. It does. So, I don't want heart palpitations when I'm sitting there trying to invest. Leave it to the professionals. (...) So that's where robo advisers come into play. But let me ask you out of the blue question, because that was ten years ago or twelve years ago when you were in your forties. I know where you were going with it.

(...)

Technology has gotten better. It's advancing. It's not the same. I know that from that point in the 2010s that companies moved to more of a hybrid role where there's still a human involved. But now, AI is getting so much better. So how are things, I mean, they sound the same, but how are they different this time? I've been watching AI for years and I've been skeptical. And now I use it for certain things. So, wait, hold on. So, you can't use AI to get rich? (...) I wouldn't. But I think that any financial adviser that's not using AI as a tool to better serve their clients is behind the gun.

(...)

So 80 to 90 percent of advisers don't build financial plans for their clients. And you know that we won't work with anybody unless we have a financial plan. And not all financial plans are created equal. We want to dive into tax strategies, legacy planning, estate planning, social security, health care, Roth conversions. (...) So how is AI going to help us? Well, AI is going to make those tools even better, even more accurate, even more personal. But what AI can't replace is that personal connection.

(...)

Investments are very personal. They're less about investing and they're more about being personal. And that's what people forget. Our job is investing. That's how we get paid. But I would tell you more, (...) what's more important about what we do is dealing with a person's psyche, (...) getting into their head. No one person, no one client is identical. So, we need to understand what's going on with them. AI can't do that. Maybe one day it can. And I'm fearful of that day. Never say never. Never say never. Never say always. I'm fearful of that day, not for our career, just for the world in general, where a robot can understand what's going on in my head. Well, iRobot came out in your 40s, right? iRobot? Yeah. With the cleaning thing? No, with Will Smith. Oh, yeah, that one. Oh, the movie. Yeah, I saw that. It was a little just, I mean, it was interesting, but also a little disturbing, right? And when they took over. But I think that AI has a place in the investment world, but it can't replace emotion. I can't. People want to look somebody in the face. They want to know that they have a beating heart and that they care about their future.

(...)

Our job isn't as much about investing as it is about the personal connection that we make with people.

(...)

So, AI will be a tool that we use to better serve our clients. But ultimately, I'm not worried about it now. Are there other careers that maybe should worry about it? Yeah, probably. Yeah. Yeah. I think the other thing as well, I mean, again, I fall victim of this because I'm more involved in social media than you are. Right. Well, (...) I mean, it's your generation. You're the millennial generation out here.

(...)

But I mean, I see you see things on Twitter, right? Or I guess they call it X now. I guess that's aging myself there. (...) But there's tweets, if you still call them those, there's tweets of how to prompt chat GPT to manage investments or to do that. I guess the thing that, (...) you know, and in researching for this episode, the thing that I feel like isn't being promoted as much as well as these, like a chat GPT. These large language models, right? They're using all of history.

(...)

And maybe they can crunch data a little bit faster than a human. But at the end of the day, they can't predict the future as well. Right. There isn't a crystal ball to what the future looks like. Everyone's going to-- I think it's part of the human condition where everyone's trying to adapt and find that advantage over using an adviser or not. But kind of what you were saying, personal finance is a lot less about finance and investing than it is about the future. It's about investing than it is just being personal. What about-- and this is because you want to make fun of generations. This is your generation. No, no, no, no. The fire movement. I'm making fun of you. It's different. No, the fire movement. Talk to me about that. Yeah. What is the fire movement that everybody hears about that I've heard about for a few years now? Yeah. So, fire movement, it's an acronym, F-I-R-E, right? It stands for financial independence, retire early. And to sum it up, all it is just aggressively saving for the first 20, 25 years of your career, living well within your means, and then retiring once you get to 30, sometimes 35 years of your salary built up. And then from there, living on a fixed budget for the next, again, 30, 35 years or however long, you know, you'll be on this earth with you. Well, (...) that--(...) why not? I mean, OK, so I save aggressively for 20 years, and I can live the rest of my life. But the problem is that it's not that feasible for everyone. Think about it this way. If you're trying to just live your life off of rules of thumb, like maybe the 4% rule or saving 15% of your income, right? These are basic rules of thumb. Wait. What's the 4% rule? I know, but maybe other people don't. So, the 4% rule, in essence, is if you're generally invested in a proper diversified portfolio, you should be gaining more than 4% a year on average, right? Some years are going to be down, some years are going to be greater than that. But if you live on 4%, you should be good. Right. Because if you're averaging 7% or even 6%, right, while you're living off of 4%, you're still netting 2% or you're netting 3% if you're getting 7%, right? So, it'll still be growing while you're living off of it, right? But you know as well as I do, and the shortcomings of that, right? What are they not calculating? So that's the thing, is the problem with that FIRE movement is that I, and from just what we've seen, people coming to us for help, right, is that there's a lot of blind spots involved with it. And I'll pick on a couple here. The first one is if you're starting out, you know, you're in your 20s and you're trying to aggressively save and implement this FIRE movement over the next 20, 25 years, retire in your mid 40s or late 40s, well, if you're trying to have a family, if a family is important to you, trying to have more than one kid, right? You can speak to this better than I can. Oh, they're cheap.

(...)

Yeah. Private school, braces. Bad mid-lessons. Different clothes as they grow. Soccer. Yeah. It's cheap. So, the expenses are going to be changing all the time, but also, and kind of picking on what you shared with health, right? You can't plan for that fender bender that gives you a creak in your neck or a heart transplant, right? These are inevitable, and to some degree, there's going to be a health event, right? That throws off the strategy because you have to save aggressively, but what are you going to do? You're going to save aggressively in your 401(k) or are you going to pay for the hospital bill to give you life-altering and necessary procedures done on you? But when you do the research and spend 10 hours on chat GPT building a supplement stack, I'm living to 100. I know that's what you prompted it for, but that's the other thing is you have to be an expert in how to prompt the AI. But the other thing is it's one of the... Have you heard of AI sycophancy? No. That must be a millennial term. No. So, at Northeastern University, there's this professor and her research group came up with this term. It's the tendency for AI, these large language models, to be very agreeable. Not that they won't disagree, but there's a tendency to be agreeable. So, when we're talking about how that human connection is what people are looking for, right?

(...)

I asked you this question. Why do people still use a gym trainer if you can come up with a workout routine just on AI? Accountability, personal relationships, the same thing we've been talking about. I do classes at F45, right? It's group workout classes. Why do you think people... Can't tell. Oh, really? It's not paying off.

(...)

Okay. (...) But it's being in the suck with other people, right? It's that human connection that's lacking. So, the other thing is that the AI sycophancy, it's not going to push back on a strategy. It may give you some disclaimers here or there, but it's not going to push back the way that you and I would with the human, because we've been through all of those things to the same end. If you're just trying to build it all through AI, it's not going to point out any errors in how your prompt it, right? Because it's garbage in. If you don't put in the exact perfect data, it's going to give you garbage out. It's not going to give you updated numbers, and that could derail an entire plan, which we've seen a couple of times, and it's starting to become a little bit more redundant as we're progressing through this age of AI, because I think it's going to get better. I don't think it's going to leave anytime soon, but those are just things to be thinking about if you think, "Well, chat GPT can just be my financial adviser." You've got to make sure that the numbers are right. It's making everybody feel like they're an expert in everything. Right. When nobody can be. That's the thing. Not to go on a rift, but I've used chat for fantasy football. I've used it to break down trade analysis. Did it work? Did it work? No, actually, because I was trying to figure out for a dynasty draft who to pick, and it put the wrong names on the wrong teams in the wrong years. Obviously, I keep up with the sport, so I know that it's wrong, but if you're just researching, reading three or four articles, and then throwing that in a chat, (...) again, how do you know if that's right? It's going to get better over time, but that's the big concern right now, is always getting a second opinion and making sure that you're consulting with a professional. (...) That leads me to the next question. How can people protect themselves from getting kind of reeled in, from getting tricked by these self-proclaimed experts that are on social media? How can they protect themselves? What are the things they can look for? Well, number one, (...) you know this being in the industry, every financial professional that's licensed is registered with the government. You can look them up on BrokerCheck.finnurud.org. You can look them up on the SEC website. You can see if there's disclosures, (...) if there's been complaints. If somebody hated how you do your hair, always to look like Zoolander, they could put a complaint. That could show up on your disclosures. I'd probably win, (...) because it's awesome. What about other things? If, let's say, you stole money from someone, or you were lent money from a client, which are big no-nos in this industry, that's going to show up as well. If you've ever been sued and what that settlement amount was, and knock on wood, we've been doing this for 22 years last month,

(...)

you don't have a single blemish on there. What many people don't know, and we talked about this in past episodes, is it's not just your professional record. (...) It's any licensed adviser at the firm and their personal record. Did they get a DUI? Did they file bankruptcy? Have they ever been arrested? There's a saying in our industry, it's not if you get a disclosure, it's just when. (...) I know we take a lot of pride in being around 22 years and never having a disclosure.

(...)

I want to circle back to the fire thing, because going back to it, so we're saving aggressively for two, maybe sometimes three decades, and then we're living off of a fixed budget.

(...)

There's still a lot of blind spots in there. You know, again, going back to healthcare, it's one of the fastest inflating sectors of the market. But also if you want to have kids, if they're going to go do the badminton class like your kids, or maybe they're doing karate or whatever the case is, those expenses are going to get bigger, but tuition,(...) college tuition, it's inflating at 6% every single year. It's crazy. Health care. Health care, right. Third highest inflation rate of any sector of the market. Groceries, all those different things. See, they're living off a rule of thumb, saying, "Oh, it's just 4%, but they're not calculating for inflation. They're not calculating for extra expenses or health care." And so that's why I know at GDS we care so much about financial planning, because if you don't have a plan, then you're already planning to fail. Exactly. And you need to keep up with the tax laws, right? Listen, (...) that is not a riveting topic to read about for hours on end on a Saturday, right? It's dry material. (...) No one wants to read that, right? They're going to pay somebody to read it for them or throw it in the chat, whatever.

(...)

But the other thing is that when it comes to movements like that,

(...)

which again, some people have found success with that. I'm not here to bash anything, but we're here to help educate on the potential pitfalls. I haven't met anybody that would forego retiring early so that they could get confidence in their financial picture knowing that they have, in essence, adaptability, right? Absolutely. I would trade adaptability for the unknown if 2008 repeated itself or 2022 repeated itself. I would rather replace being able to retire in my late 40s or early 50s with having the confidence in a plan that's been stress tested to be able to withstand things like that, the Black Swan events, and have that confidence that I'm going to be okay, and my family's going to be okay, and all my kids, and all the things that I wanted to do aren't dramatically changing as a result of that. That's all about the plan. So, when we talk about the things people can do to protect themselves, we talk about making sure they're talking to a licensed adviser. But what about the mean stocks, or the little gotchas out there that sound exciting, they sound attractive, and now the celebrities are in them, so they want to follow it. What are other things they can do? Can they look at Morningstar? They can. So, Morningstar is one.

(…)

Can they look at-- I know we talked about FINRA and the SEC for advisers. Can FINRA and the SEC also look at investments? They can. They can. But the other thing is that just checking your sources, doing the research, it sucks, it's monotonous. I get it. But this is your finances you're talking about. These are the four legs of the stool, faith, family, health, and finances. That's what's going to hold up the stool or the table of your life. You need to have those locked in. And stick to the fundamentals. We talk about Warren Buffett a lot, but the one thing I love about him is one of the smartest investors to ever live. He's been through so many market trends being born during the Great Depression.

(…)

Quality, consistency, that wins the race. It's boring. It's boring. And I'm talking to that motivated, eager, self-driven entrepreneur in their late 20s, 30s, 40s even-- Who hasn't been burned yet. Who hasn't been burned yet.

(…)

Everyone that's lived this life knows that Rome wasn't built in a day. (…) It's boring. (…) It's not exciting. It's not going to be like your new tech startup. It's not going to be like Nikola Motors five years ago where it was supposed to change the world for EV companies.

(...)

But it's what works. We've got data to back it up as well that over the course of history, if you just invest in quality companies, that's what's going to sustain you. All right. So, as we wrap it up, what are kind of two takeaways you have from the day? I know I'll give one. Mine would be-- and I've said this for 20 years--(...) it used to be do the opposite of whatever you see on TV, (...) and you're probably going to do just fine. Because the TV is controlled by billionaires. There's always a narrative push. They're already in it. We've talked about this earlier. They're getting you in it so that they can jack up the stock price so that they can sell out and they can stay billionaires. So do the opposite of whatever you see on TV. Now I'm going to switch it and say, do the opposite of whatever you see on social media, and you'll probably do OK. It's taking things with a grain of salt. You need to understand what's the hidden motive, right? Because I get-- I mean, we get emails from wholesalers about trying to involve private investments all the time. All the time, every week. And I just click the block and report to spam button every single time. But the other thing is those ads that you're getting on your TikTok, on your Instagram, on your Twitter, right, take it with a grain of salt. If they're telling you, hey, you can be a nerd-- look at this nurse that bought a laundromat and became a millionaire or invested in this pooled crowdsource investment, right?(...) Just like Vegas, no one's going to tell you when they lost money. They're going to tell you when they won, and you just have to take things with a grain of salt and try to understand what's the hidden motive. Are they trying to sell me a course? Or what are the fees involved with this? But also think about, is this really what's going to set myself up for the greatest probability of success? It's trying to find this home run hitter of a private equity offering to a retail investor, right? It's like trying to draft the next Tom Brady. You know how hard that is? You know how many first round picks bust in the first four years of their contract? He wasn't even a first round pick. Six round picks. Yeah. And the Niners passed on them six times, but that's a different conversation. Because that's your team. Kyle Shanahan will have a conversation another time. So basically, you're saying, forget about the noise. Don't let the noise derail you. The noise of social media derail you from sticking to a proven philosophy, investment philosophy that's worked for over 100 years. That's the hardest thing, is trying to step outside of yourself and control your own emotions. And we're guilty of it as well, right? We're human, but we're also in the space so we know how to catch ourselves when we do it, right? And that's the tough part, is having those conversations with a professional that understands the emotions that you're going through and can speak to that. Right? I don't see, (...) again, hopefully not in my lifetime, I don't see a world where technology or AI can comprehend those emotions that are real and that make you lose sleep at night. Definitely not today. Right. Well, perfect, brother. I say I love having you on today and taking Glen's spot. You're somewhat better looking than him, but still-- Yeah, year-round tan. Yeah. So, this is where we get to our mailbag question. This one was sent from Joan.

(...)

Joan. From California, from your home state of California. What part of California? It didn't say that part. Hopefully not Southern California. I don't know, but this is perfect for you being a millennial. When is the right time, our age, to start investing? Now. Now? Now? (...) Birth? Birth, right? Open up to 529. As soon as you have a Social Security number. As soon as you get the Social Security number, get invested immediately, right? Because I think Warren Buffett started investing when he was seven, and he didn't become multi-billionaire until his late 60s. But that's a different conversation. But I try to-- my wife works in health care, right? They go through a lot of schooling. Very smart people. But no one's taking the time. She wasn't smart enough. I mean, she did marry you. Well, I could say the same thing about Lauren. She met you on the internet. That's true. That's too shit. Too shit. You got me on that one. Thank God that Match.com is a thing, huh? Yeah. Yeah, pretty much. But as soon as possible, take advantage of any employer plan that you have access to, take advantage of any platform like Schwab, Fidelity, Vanguard,

(...)

just starting to get that compounding working. It's the eighth wonder of the world, right? And it's one of those things. It's like trying to grow-- What is? Compounding? Compounding is like--(...) again, I know you haven't been to California, but there's these large-- I've been there. Yeah, but you're not going to know what I'm talking-- the Sequoia trees? I mean, I know them. Yeah, you don't know what I'm talking about. But those large redwood trees, those Sequoia trees, right, they're the largest trees in the world, right? And people are probably thinking, why is he even talking about trees right now? Compounding over years. (...) Exactly. And those are two, three-- some of them are 500 years old, but you got to get the clock starting immediately. Let it start growing immediately. There's going to be sucky years. That's the cost of admission. I've heard Glen say that numerous times.

(...)

Get the clock going as soon as possible, but make sure you do it with quality and investments, right? That's right. Seek out a professional. Well, before I close this out, this may shock you. I have seen those trees. I've been out there once. I know you think I've only been in Texas my entire life or Louisiana, but I have been out there. Were you like huffing and puffing? No, I loved it. It was a great hike. (...) I know you still do the Jillian Michaels workout, so I don't know if that's going to train you for-- That's that cardio blast. For Lake Tahoe. It's 20 minutes. So anyway, well, again, thank you for joining-- I appreciate you having me on. Today, it's been a blast. And I want to tell everybody, if you have any questions, feel free to submit them to any of our social media sites or just email them directly to GDS at gdswealth.com. Again, thank you for tuning in. I hope you learned something from today, even though Sebastian was here.

(...)

And I'll say this, our promise to you, we're trying to create content that you guys can relate to that can really learn from. So, whatever, like and subscribe.

(...)

Any comments, our promise to you is we're going to give you the best material possible. But just hit that like and follow button and give us the questions, and we'll do our best to break down what's going on in this world. Awesome, man. Appreciate you having me on. Absolutely. Thank you.

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