Don’t Fall for This: The Truth Behind Invest Like the 1% Gimmicks [Ep. 20]

Transcript
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Why are we investing money? Right? Is it the brag to our golf buddy, or our friend that you know, we found the next whatever investment, or is it to achieve a goal, which is what we're focused on, we want to put our portfolio of clients in a manner to give the greatest likelihood in our opinion, for them to achieve their goal.

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Well, in today's episode, I'm excited Robert to talk about what some financial experts are putting out there kind of like as gospel, right? (...) And I'm gonna call it the lie behind how the 1% supposedly invest, right? Yeah, I look forward to this. So, a lot of times people talk about the 1% as if they have a whole different playbook. They have a different strategy and a different way of investing, right? That the average Joe can't get some. I'm excited to dive into the weeds, really what that looks like. And these people that are peddling, hey, invest like the 1%. What does that look like in reality? There's fintech companies. There are wealth coaches. There are influencers that it seems like it's all the rage right now and best like the 1%. So, let's dive into it. Yeah. So, all right. Let's what do you think? I guess one of the biggest lies that you hear about how people invest in the 1%. What do you think that is? I think the biggest lie is going to be that the reality is most ultra wealthy people, they invest pretty boring. They have blue chip stocks, ETFs might have some mutual funds, bonds, whether it's corporates, municipal bonds. It's very boring. It's not as exotic as it's pretended to be out there. (...) The reality is they build wealth slow. And the way they do that's through those instruments. So why do you think so many people are influencers or these people online, there's always these meme pushes out there online on all these different platforms. Why do you think they're pushing it so much? What's the benefit? Well, I think they're selling the dream, right? That's a whole lot easier to sell, to sell something saying, hey, invest like the top 1%. You feel like you're in an exclusive club, right? But it almost sounds rebellious. The 1% the reality is these instruments that might appear exotic and are exotic, they don't always have the greatest return. I mean, you really when it comes to investing, I think you want to take a long-term approach. And typically, you're going to make more money that way. So, this, I mean, it kind of seems like another illusion of safety, like a trap.

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When you think about the push that they're doing. So how do you kind of navigate that? I think one of the first steps you should do when it comes to investing is not focused on, hey, what is what is the maximum I can make in this particular investment? But what is the downside? Right? Somebody might pitch you, hey, these investments done 20% 30%. Well, redefined print, maybe there's 20 of those investments out there and three of them did make 20 plus percent. And if you completely defaulted, I would look out focus more on what can go wrong. Murphy's law, right? What can go wrong? Will I think the focus needs to be more on how bad an investment can get than the potential upside? Well, how do they market these investments as being secure? I mean, I know, of course, influencers, we did a podcast on this, where influencers aren't necessarily licensed for the most part. But how are they still pushing these as secure investments?

Well, they're pitched as collateralized institutional investments. (...) And it makes it seem as they're very safe. I think it's the language words matter. So, what they do is they try to use words to make these products seem something that they're not. And people don't do their full due diligence, and they fall for it. (...) So for somebody listening today who's tempted to buy these are there, they they're getting pushed. It sounds attractive to them. What should they watch out for? I mean, what's the smarter or safer pick?

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Again, I would look into the details of it. Realistically, what can happen? Look at the liquidity. That's a big one, right? How often are they gonna they're gonna show what's going on? Sometimes certain investments you find out once a year what's been going on.

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Truly what is invested? What is it invested in? Is it leveraged? Right? Warren Buffett's famous saying the three ways to go broke ladies' liquor and leverage is that product leverage. Leverage is a fantastic way to make more money perhaps. But it's a quick way to go broke. Or if you're limited exposures to that one product, if it's leveraged, you could lose 100%. And this happens more often than not with companies out there that that are well known. This happens all the time. Ladies liquor and leverage. It can be exciting for the short term. But at the end, you're gonna be broken alone. That's what you're saying for yourself. I'm gonna say it's never exciting.(...) So I mean, long time ago.(...) So I know you have a story. So what's a cautionary tale that you would that you would throw out to somebody? Yep. So recently, and this happened last week, there is an article in CNBC that I'm going to share some of the details because, again, this isn't this isn't me, you know, coming up with my own facts. This is CNBC. So I'm going to read a little bit of this.(...) But just last week, CNBC talked about Yield Street, who marked it marketed itself on the platform as democratizing access to private investments, right? They offered real estate art back loans, litigation, finance, and their hook, their marketing hook is what we're talking about. Invest like the 1%. Right? That sounds amazing. I'm, I'm getting access to something exclusive. It sounds awesome. I want to do it. I'm tempted to do it. Just based on that hook alone. Yeah.(...) But they interview a gentleman.(...) His name's Justin cliche. Again, I don't know them. Don't know him. A finance professional for Miami in 2022. He invested 400 grand across two deals on Yield Street, a luxury apartment project in Nashville and a renovation in Chelsea, New York, right?(...) Both promised 20% returns. So to me, that would be one red flag, like really 20%. Okay.(...) And this is something it's pitched as exclusive, you know, this, this is a leveraged product, you're gonna, you're gonna, you're gonna get these returns that are outsized. That's nearly double what the stock market's done. So automatically, I'd be a little concerned that seems a little high.(...) Fast forward three years later. So 2025, the year we're in now, he's expecting to lose nearly everything. The Nashville deal was declared a total loss. You lost 300k in it. The Chelsea project is still alive, but they're asking existing, existing investors to pony up more money to keep it alive to have a chance to return their principal and maybe make a small gain. So they're, they're already, they're already in the hole. They're already losing money. And they go back to the same investors to try and get more money in the hopes that they're like, well, I've already lost. So the only, only chance I have a recouping is throw more money at it. Yeah. So now it's a bigger gamble. I'm sure. Yeah. A hundred percent, but I'm sure their angle would be, Hey, interest rates went up quicker than we anticipated. Maybe it had some construction delays. So, you know, there's still a pot of gold at the end of the rainbow. We just need more money to get us there. But that's not, that's not the investor's fault. I mean that the people that are coming to him for money, the, the, the builders, I mean, they're the ones that should have calculated for that. We want to calculate for worst case scenario and everything we do. So by, by them doing that, I mean, it kind of seems like a trap. It's complicated, right? Again, I'm not defending them. I'm trying to point out what they did, but at the end of the day, sometimes unique situations happen. But to your point, what if, what if the investor doesn't have additional funds liquid to pony up? You know, I, I was, I was debating saying this, but as soon as you mentioned yield streak, I have a conversation that happened two days ago. And to be honest, I've never really even heard of the company knew nothing about it, but we have a new potential client who just informed us that they're going to become a client. And as we were deciding which portfolio(...) we wanted to pick for him, because, you know, we have 19 different models, we talked about the difference between equities and bonds and risk tolerance. And he goes, well, I think I have my income side bond side taken care of. So why don't we just go to the 100% equity model? And I go, let's break that down. Because the reason we've had the success we've had is because we have open dialogue with our clients. We know what's going on. So I go, let's break that down. What do you mean? He goes, well, I've been investing in yield street for the last year or two, and I'm getting some decent returns, you know, 6% is what they're promised. And I go, my jaw kind of hit the floor, because I knew this was coming. And so as we talk about it, I go, this guy is not the top 1%. He's not your billionaire next door, or even your millionaire next door. He's just an everyday dad, an everyday husband, that probably my guess is saw an opportunity saw an ad that sounds exciting, and wanted to jump in. And so since then, I've talked to him about it, because this was just two days ago. So yesterday we're talking, and I gave a word of caution to just, you know, to just watch out to protect yourself. So that brings me to this. What warning signs should everyday investors look for when they're getting hit and they're getting these things pushed on them? There's a few warning signs. But before I get there, let me share a couple more statistics on this yield street. From 2021 to 2024, they had 40 deals that CNBC investigated. Again, I'm not the investigator. I'm just repeating what CNBC had. CNBC investigated from 2021 to 2024. There's 30 deals they looked at from yield street. Four deals were total losses, 23 on our watch list, which is a fancy way of saying there's a high probability of default.(...) And in three are still paying to investors. So 370 million was invested, 78 million is already gone.(...) And something else that was a little bit weird that they talk about in this investigation.(...) And again, I want to be fair to yield street, even though I'm kind of picking on them a bit here.(...) But their website wasn't updated correctly. These investments, they had investments that were down 100%. And the website was showing their performance was zero, right? If I give somebody a million dollars, and he'd lose me my million dollars, my performance is not zero, it's down 100%. It's negative. Yeah. And so again, goes back to doing research. But even sometimes when you do research on these products, it can be very murky. Now, it's like lack of transparency. Yeah. And then well, I'm sure they would say they were going to get to it, etc. Now, CNBC did pointed it out to them. And they did update it. So as of now, it's updated. But you know, what if CNBC didn't say anything? Was that going to be updated? Because that's that can change your opinion of investing in it, right? If you're looking at it online, and a bunch made money, a bunch broke even, I can deal with that. But the ones that broke even, you really would have lost 100% of your principal, that may change your decision making on if you should do it.

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So, when we talk about these warning signs for these products that promise above average returns, and I use the word promise loosely, but above average returns, what should people look for? There are a few things. One is again, to you just nailed it. If they're promising you or saying you could get this crazy return, if it's much higher than the market, I'm a little leery, right? There are professionals that can't beat the just the US stock market. And I'll be specific, the S&P 500.

(...) There's that saying be greedy when others are fearful, fearful when others are greedy. And I think people take this out of context. They're thinking, oh, I'm going to be greedy because this these investments 20%. You had some downside. (...) And they take on what I would call unwise risk, right? I'm all for taking risk. But you want to you want to be in. If you're in the S&P 500, rarely does a company completely go under. Yeah, we have Enron we have we have companies that do from time to time, but they're liquid, right? You can get out. (...) You know what's going on. These products can be tough. So I would say when it comes to that to that quote, be greedy when those are fearful, I would imply that or use that in a context of if the stock market comes down or real estate comes down and you're in real estate investor or stock market investor, all things equal, you should be more attracted to jump in with both feet into the stock market, right? But if you are using that concept of, hey, I want to be greedy and those are fearful, I'm trying to find this, this needle in a haystack.(...) Man, that you I would redefine print, be very careful, you know, liquidity is a big one. So,

so let me ask, are you saying people should never invest in alternatives or just be cautious in the alternatives they invest in? I would be cautious. No, there's some alternatives that can make sense. You know, here we do options from time to time that the way we structure it, you could consider that an alternative. But I would be careful. These firms that they're not even good at investing money. They're just a marketing machine, right? They're wealth management companies that are marketing machine. And they come up with these super amazing catch lines, to be honest, we're democratizing investing, we're bringing down this to the common people, man, oftentimes what's happening is they're getting these products that the first wave of investors, they're already done, they made their multiple 12345610X, they're out. So they're looking for the next sucker to pass it to. And you don't want to be left holding the bag, assuming, well, the first investors made, you know, this crazy return, I want some of that. Yeah, that was how you got in three years ago, they're looking to offload on you. So I mean, it seems like, and correct me if I'm wrong, but it seems like that when you talk about the first investors, the initial ones, well, those are the multi-millionaires, the billionaires, they're the first ones that normally get in, then they promote the hype, they get out there and they put the money out there that they they've already made a ton so they can take a little bit of that profit, push the product, then get the everyday investor in act like they're helping them out, bringing them along, jack up the stock price sell out and who's holding the bag in some cases, some cases, some cases, I mean, I want to do a blanket answer and all these, but that does happen.(...) To put it in context, I don't think by the way, I don't want Yield Street or be mad at me. I don't think that's what happened here. I just think, you know, they did some real estate, real estate can be risky, and they lost a chunk.

So let's zoom out for a second. Okay. Most people that are chasing alternatives or that want to chase alternatives or even thinking about it, they had this mindset that they may beat traditional investment strategies. They may beat it. They may beat it. Yeah. So, but the numbers don't really say that. Is that what we're saying? Well,

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one size doesn't fit at all. There are some that do, but I think what's super important when it comes to investing, like we talked at the top of the hour, is not so much what you might make. That matters, but it's what you could lose. (...) So let's use the following analogy. Let's say you had two investment choices, investment A and investment B. Investment A, you can put $100,000 in. Okay. You put $100,000 in investment A, you invest it for 20 years and you make 7% per year for 20 consecutive years. Okay. You can put $100,000 in that or you put $100,000 in a portfolio, (...) portfolio B, which makes you 21% the first year, loses you seven the next year. Up 21, down seven. Up 21, down seven. Up 21, down seven. Up 21, down seven. For 20 years. For 20 consecutive years. Okay. Now, when we do seminars, when I ask people this, I go, "Which one do you think after 20 years will grow your hundred grand the most, regardless of risk?" Don't worry about risk

right now. I love how split the room is in the seminars when we ask that. Yep. Because everybody wants to guess. Yeah, I would say it's almost 50-50 when people, and I, although I do encourage them, I go, "Just throw out a number. Don't overthink it." It's about 50-50. 50% say, "Well, if it's seven, seven, I'll make you the most money." 50% will say, "If it's 21, up seven, down." Because, man, if you had a million, it goes up, you know, $210,000 and comes down, you're going to end up with more money. And the thing is, by the way, they both average the same, right? Right. If you take a minute, think about it. Most people can probably figure that out pretty quick. 7, 7, 7% per year. For 20 consecutive years, average is seven. 21, up minus seven is 14. 14 divided by two is seven. So, they both average the same seven. But I'll repeat my initial question. Which one after 20 years will give you the biggest pile of money? (...) Now, the first one at 7, 7, 7, while it averages seven, it also compounds at seven, which, by the way, that's where it's at. When I look at returns, I might glance at the average, but that doesn't really matter. I'm looking at the compounded rate of return. (...) Because somebody may, if you give somebody a million dollars and they lose you 50%, and then they make you 50%, (...) where you at? There's 750,000. Exactly. Because you went from a million to half a million, then you make 50%. Now you're at 750. So, your average is zero, but you're compounding. That's what some people would try to argue. Yeah. But you're down 25%. Yeah. So, again, a 7, 7, 7, averages seven. You're compounded at seven. The one that's 21, up, seven, down. 21, up, 7, down. It averages seven, but it compounds at only 6.08. (...) So, for every hundred, (...) excuse me, for every million dollars you have, you're going to make like a 10K less on the one that's 21, up, 7, down. 20, up, 7, down. And that one on a surface, it kind of looks more exciting. Right? (...) To throw a quick number at you, the 100K and the one that did 7, 7, 7, after 20 years, you would have about 386,969 dollars. (...) The one that's 21, up, 7, down. 21, up, 7, down. After 20 years, you would have 325,599 dollars. So, 60K less. You know, if you had a million, that's 600K less. Add another zero. Exactly. Yeah. So, thank you, because that's such a solid way, I think, to break everything down.(...) So, as we wrap it up, what are kind of the final thoughts that you think about when talking about alternatives and just what people need to watch out for and avoid? I think you want to really know, just because somebody says that something's exclusive, know the liquidity, know how it works, (...) get into nitty gritty, if it's leveraged, know what you're buying. And I would say, boring wins the race. I think I already said this, but if I'm in a race, I want to be the tortoise. I don't want to be the hare.

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When we build a portfolio, (...) a lot of our clients, the way we invest their money, they have ETFs and we have individual stocks. That's the brunt of the portfolio. And sometimes I remember sitting down with clients and they'll be like, "Oh, they look at it right before they look at the performance," but they'll look at something and be like, "I can see it in their eyes." Kind of boring, I mean, I'm not investing my money for excitement. If I want excitement, there's plenty of avenues I can take. I'm investing because I work very, very hard and I want my money to work very, very hard. So why Walmart, you could argue is boring, it's up 70% last year. What's more exciting to you, being up 70%? And that stock now doesn't mean the whole portfolio is up 70%. But you get those little wins though. Exactly. If you're diversified and a number of them, see growth, you get those little wins. Exactly. And it's with a lot less risk. Could Walmart go bankrupt? I suppose, but it's unlikely. One of the biggest companies on the planet, it's a cash cow.

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But by having these blue-chip stocks, boring stocks, I would encourage people, don't feel like you have to make a ton of money this year, next year. Just compound your money, consistently try to make money, make your portfolio. Yeah, you might have some dips once in a while, but you try to minimize those. I would argue that is going to give you the biggest pile of money, the biggest return over time, then exposing yourself to a liability of losing 100% on a portion of your account. Don't fall for those get rich schemes. They don't exist. (...) I would say people that I know that are wealthy, they got wealthy, typically one of three ways. They own a part of a business, right? Maybe they started it or they bought their way in, etc.(...) They invested in stocks(...) or things like stocks for a very long time. And they accumulated those assets, right? Over decades, they grew a nice net worth. And the third way is, which people probably prefer, they inherited it. Those are three ways, starting a business or owning part of a business, just old-fashioned way in inequities or like equities or inheriting it. But I've met very few people in over 20 years of doing this, that put a chunk of money in some alternate investment and consistently knock the cover off the ball. That hasn't been my experience. I know you're a baseball family. And I'm becoming a baseball family now that my kids are getting into it. But I didn't grow up knowing much about baseball. But one thing I have learned over the years is

that consistency, singles and doubles, singles and doubles. If you step up to the plate and you're trying to swing for home runs, every single time you step out, step up, you strike out a lot. But to win the game, it's all about singles and doubles.

And that's the thing to remember, why, why are we investing money? Right? Is it the brag to our golf buddy, or our friend that you know, we found the next whatever investment, or is it to achieve a goal, which is what we're focused on, we want to put our portfolio of clients in a manner to give the greatest likelihood in our opinion, for them to achieve their goal.

And even if you're out there and you're say a do it yourself, or you do your own investments, I would encourage you to have that same mentality. Don't be looking for those grand slams. (...) And if you do make it a small fraction of your account, maybe it's maybe it's, I don't know, 1%, 2%. But, you know, there's situations where we've seen people put a large portion of their account, looking for that grand slam and more often not, not as it not as not only is it not a grand slam, it's not even a single or double, it's a strikeout. And now they set back the retirement for five years.

All right, Glen. So it's time for the mailbag question. And this one, it's pretty simple. I think you're going to knock this one out of the park. No pun intended for our previous conversation.

But this one's from Joe. I'm not sure where Joe is located. But this one's from Joe. (...) And he's asked, what does it mean to work with a fiduciary?

Well, I'll, I'll answer that by explaining what kind of what a fiduciary is and the other alternative, right? A fiduciary is obligated to do what's in your best interest. (...) And oftentimes, when we say that, people just assume isn't that everybody? No, unfortunately, you know, we spent 10, 11 years at a big wire house, if you will, that was gobbled up by Bank of America. (...) That is Merrill Lynch. But those types of firms, (...) most advisors are brokers, and they work under the suitability standard. And what that means is when they pitch you an investment, it just needs to be suitable. (...) Suitable for what? Your needs, your risk. Exactly. For both. But it doesn't need to be even in their mind what the best thing is out there. (...) Does that make sense? So, there could be hundreds of investments that might be suitable for somebody. But there's one that's the best. Exactly. If you're a fiduciary, you have to do what you think is the best. And when it comes to investments, sometimes there's the identical investment, the same wrapper, same everything, the difference is a client in one place, 200% of what the other one is.(...) If you're a fiduciary, as are we, if you're a fiduciary, if you're only, you have to do what's best for the client, right? If you're working under the suitability standard, you just have to say, oh, it's suitable for them. And for the record, you have no obligation to stay on top of that from after the moment, the client invests in that product. So as a fiduciary, no handcuffs, you have to have open architecture to go pick the best investment for the client, not just what's suitable for the client, because dozens of investments in any sector could be suitable for a client. It doesn't mean it's in their best interest. That's right. That's the best one out there.

Well, thank you, Glen. (...) I appreciate you answering that question. And for everybody watching,

if you have any more questions, feel free to tag them on any one of our social media platforms or to email them to us at gds at gds wealth.com. Thank you again. Look forward to the next episode.

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