Scott Brooks Video Transcripts

VIDEO 11: 6:56

SCOTT: Now, what I want to do is I want to take you through what I call my two-portfolio analysis. Remember in the class where you learned about private wealth strategies? Remember that? Remember, the private wealth strategies are how the very wealthy in the country, it's one of the ways they invest their money?

PATTY: Uh-huh.

SCOTT: Okay. So, what I want to do is I want to tell you the story of two completely hypothetical, totally made-up private wealth strategies, Private Wealth Strategies A and B. Now, what I'm going to do in this exercise is I'm going to give you some context, okay? Then I'm going give you one piece of information about Private Wealth Strategy A, and one piece of information about Private Wealth Strategy B. Based only on that context and that one piece of information, you tell me which one you would pick. Then what I'll do is I'll give you more context and another piece of information about each one, and then you tell me which one you would pick. This is not a trick question. I ask these question in a very specific order to get very specific pieces of information from you, okay? So other don't over-think this, okay? Let's do this two-portfolio exercise here. Before I do that, can I erase what's on the board here guys?

ROY: Yeah.

SCOTT: Okay, very good. All right. So, what I want to do here is i want to tell you a story Private Wealth Strategy A, and Private Wealth Strategy B. Now, both of the these private wealth strategies opened up their investment firms on January 1, in the year 2000. Now why do I pick January 1, 2000 as the start date? Because the last 17 or so years in the stock market have been the worst 17 years in the history of the stock market except for the Great Depression. I mean, it's been a very rough period of time, okay? All right. As a matter of fact, remember in the class we talked about this? Over the last 17 years, the S&P 500 has averaged about a 3 1/2% return, okay, during that period of time. Not very good, all right? Now, during the time when the S&P was averaging a 3 1/2% return, Private Wealth Strategy A delivered to his investors a return, net of all fees, costs and expenses, of 7%. Now, I want to be clear what I just said. I said net of all fees, costs and expense. As you know, anytime you invest your money, there's expenses, right? All right. Seven percent is the return that you got. As a matter of fact just for future reference, if I ever talk to you about any return on any investment, I will always give you the courtesy of only speaking of the net return to you, okay? Now, what I've done is I've already subtracted the fees, costs, and expenses so you can see this is what you get. I think that makes things so much simpler for you to know what you are getting. Think of it way; that's the amount you would owe taxes on eventually, okay? All right. So, 7% is really what you earned. Private Wealth Strategy B delivered to his investors during that same exact time frame a return, net of all fees, costs, and expenses, of 12%. Now, just based on this information right here, if this was all the information you had, and you had to pick between A and B, which of these would you pick? Patty, I'm going start with you this time.

PATTY: B.

SCOTT: You'd pick B? Roy, how about you?

ROY: B.

SCOTT: B? Okay. Very good. Now ,let's add some more context here. Let's add risk into equation, okay? All right. As you know, over the last 17 years or so, the stock market has had some pretty good dips. Remember the dot.com bubble of 2001-02 when you saw the dot.com bubble burst, the Twin Towers camd down Remember in the 2002 we had the whole Enron, Arthur Anderson debacle occurred during that time? All right? During that three-year period of time, the S&P 500, the stock market, lost 45% of its value over three years. That's a huge loss. And then, the one I know you'll remember, the housing bubble, 2008, right? Actually, interesting, the housing bubble was really started in late '07 and wrapped up in early '09. It was about 18 months. Everybody thinks about it as '08 because that's when the bulk of it happened, okay? But over that 18-month period of time, the stock market, the S&P 500, lost a staggering 58% of its value. That's huge, guys; huge. Now, during that same time frame, both of these private wealth strategies also experienced losses, all right? The biggest loss that Private Wealth Strategy A ever experienced over that time frame was a -9%. Now, I want to be clear what I'm saying to you, he averaged 7%, but it wasn't a straight line like this, okay? There were dips along the way. On the way to averaging 7%, the biggest dip he ever took was 9%, but he still averaged 7% over that time. Now, Private Wealth Strategy B, he experienced a 12% gain, but it wasn't a straight line, right? Okay. The biggest dip he ever took on the way to averaging 12% was a -4% loss. Now, based on this information, which one would you pick?

PATTY: B.

SCOTT: B?

ROY: Yeah, I would say it was B.

SCOTT: You'd say it was B? Okay, very good; write that down. Okay. Now, let's add fees, costs, and expenses into the equation. Let's take a look at those, all right? Now, as you know, these guys make their money managing money; they charge a fee, right? I charge a fee to get you in these accounts. There's trading costs to buy and sell and trade things. If you take into consideration all fees, costs, and expenses, including my fees, the cost of doing business with Private Wealth Strategies works out to be an average of about 1.5% per year. So, what that means is what return did he really get for his investors? He really got an 8.5% return, minus the 1.5% in fees; see that, to net out 7. So, you really got a 7% return. Does that make sense guys? Now, Private Wealth Strategy B, he not only got a higher return, he got a higher return with lower risk. You see that, guys? Remember, we talked about in the class how the losses hurt you more than the gains help you, and the real focus has to be on losse? All right. So, he got a much better return with much less right, so he did a better job, didn't he? You take into consideration all of his fees, costs, and expenses, all of my fees, costs, and expenses, all the trading costs and add them all up, is worked out to be about 3% per year. So, that means what return did he really get for his investors?

ROY: Nine percent.

SCOTT: Nope; he really got a 15% return . .

ROY: Oh, yeah, right; yeah.

SCOTT: . . minus the 3% in fees. You see that? Remember, that number there is what you really got, all right? So, you really got 7 here, you really got 12 there after fees, costs, and expenses. Now, based upon this, which one do you pick?

PATTY: Still B.

SCOTT: Still B?

ROY: Yeah, B.

SCOTT: B? Okay, very good, very good. All right.