Scott Brooks Video Transcripts

VIDEO 9: 7:40

SCOTT: The first place that we can invest your money besides the cash that you have in the bank, all right, is what I call the safe and secure accounts. Now, the safe and secure acts are just like they sound. Your money is safe and secure. Your money only ever goes up in value and never goes down. The only reason it would ever go down in value is if you took out more than you earned, okay? So, on the safe and secure accounts when you look at those, you can expect over time they're going I yield somewhere in the 4-5% range, okay? Now, the next type of account is what I call the low-risk account or low-risk investment. Now, notice the introduction of the word "risk" here, okay? Money in low-risk accounts can and will, from time to time, go down in value, okay? But, there are certain criteria that investments must meet before I would ever recommend them to a client as a low-risk investment. Remember, I act in a fiduciary capacity, right, so I have to vet these investments. Remember in the class where you learned that at this stage of your life, losses are the most important thing. Remember, a very wise and good-looking man once taught you that losses hurt you more than gains help you. Remember that? All right; that was me. I'm making a joke. It's not a very good

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joke, but it's a joke. So, remember losses hurt you more than gains help you, so any time you look at investments, you need to pay very close attention to what those investments are telling you, because investments literally will speak to you, and they'll speak to you and they'll tell you how much they can lose. If an investment has done down X amount, you know what that investment is saying to you? It's saying to you, "I've lost X amount before; I can do it again in the future." So, the first thing I always look for when I look at investments is I eliminate everything from competition; or from consideration, excuse me. I eliminate everything from consideration that doesn't meet these three criteria: it must have small losses that are infrequent in nature and that recover quickly. When I say "recover quickly," I'm talking about recovery times that are measured in days, weeks or months; none of this years and years and years stuff. Can't have that anymore. Do you guys understand that what happened to you in 2008 can't happen again. That has to be off the table, right? Has to be. So, all I'm left with on the table are investments that have small losses that are infrequent, that happen infrequently, and recover quickly. Now, amongst those remaining investments on the table that meet those three criteria, what I'm looking for now are good gains, all right? What I'm looking for amongst those investments are investments that have gains equal to the stock market, the S&P 500, or at least close. They don't

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have to beat it, but at least in the ballpark of it, okay? So, what I'm looking for really is investments that have a return over time in the 6-8% range. Now to give you some context there overt last ten or so years, the S&P 500 averaged about 8%. So, again, in the range, it doesn't have to beat it, but at least be close, okay? Next we have moderate risk investments. Again, notice the word "risk." Moderate-risk investments can and will, from time to time, go down in value, okay? They will go down in value. But again, as a fiduciary, I have to vet these investments. I want them to meet certain criteria, and again, we always look to the losses first, right? Because remember the investments speak to you. They tell you how much they can lose. I eliminate all investments that don't meet these criteria: that must have small losses that infrequent and recover quickly. Now, since we're talking about moderate-risk investments, the small losses may be a little bit bigger. They may have a little more frequency, and they may take a little longer to recover. But I want to be clear; I'm still looking at recovery times that are measured in days, weeks, or months. None of this, what was it, five years, or whatever it took your money to recover. You understand, that can't happen anymore to you guys, right? That has to be off the table. So, I eliminate all investments that don't meet those three criteria: small, infrequent losses that recover quickly. Next, of course, what I'm looking for are good returns,right?

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Amongst those remaining investments, I'm looking for investments that have returns that are equal to the S&P 500, preferably high. Now, I want to be clear what I just said. I don't expect these investments to beat the S&P 500 every year; not at all. But I expect them, over market cycles, five, seven, ten-year market cycles, that they'll beat the S&P 500, okay? What I'm look for are investments that perform in the 8-10%, preferably the 10% plus range, okay? So, when you think about the rest of your money, and I'm basically talking about 1.5 million, okay guys? All right? When you think at that 1.5 million, how would you allocate that 1.5 million over these three positions; safe and secure, low-risk, and moderate-risk? How much would you put into each of these categories such that the total in each one adds up to a hundred percent? Total of all three, I'm sorry, adds up? Patty, I'm going start with you. What would you put in each one of those? What percentage of your portfolio?

PATTY: The safe and secure, I would put at least 60%.

SCOTT: Sixty? Okay. All right.

PATTY: Low, probably 30, and moderate, ten.

SCOTT: Now, one thing at these allocations ss these are not written is stone. This is just giving me an idea of where to start from here. We can always

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change these later, okay? All right? Roy, now about you? How would you allocate?

ROY: Well, probably 50 in safe.

SCOTT: Fifty? Okay.

ROY: Probably go with 30 in the low-risk and 20 in the . .

SCOTT: The moderate?

ROY: Uh-huh.

SCOTT: Okay. Very good. Again, this gives me a starting point of where your risk tolerance is, okay? All right. So, let me take a moment and write that down. Very good. All right. Now, for the next conversation, what I want to do is I want to focus on just losses, okay? Remember in the class we talked about losses hurt your more than gains help you. The other thing you learned in the class is that your goal in retirement is to strive to take the least amount of risk necessary, excuse me, to get the returns you want, so you can accomplish all you retirement goals, and enjoy the rest of your life. Remember, you learned that in the class, right?

ROY: Uh-huh.

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SCOTT: For this next question, all that exists in this world is losses. We're only going to focus on losses. And, I got to tell you something: I hate losses. I hate them! And the reason I hate them is because I'm a fee-based fiduciary, all right, which means I make my money based upon a . . I get a small percentage of the value of your portfolio. So, if your portfolio grows by 10%, you not only have 10% more money, I get same small percentage on 10% more money, so I get a pay raise. If your portfolio goes down 4%, I just took a 4% pay cut. I hate pay cuts. You know who hates pay cuts more than me? Gwen, that's my wife, okay? My wife hates them worse than me.

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