Scott Brooks Video Transcripts

VIDEO 32: 11:08

SCOTT: Now, the first thing you're going to notice when you look at the moderate-risk strategies is that there's more red, or there's more negatives up there, right? And that's because they're moderate risk. They're trying to get higher returns, so they're going to have a little bigger losses, they're going to be a little more frequent, and they may take a little longer to recover. So, looking at this chart, the way you read it is as follows. Each of these green-capped columns is a strategy. These first five here are U.S. domestic strategies, therefore I'm measuring them against the S&P 500, which is a U.S. stock index. These three over here are global or international strategies, therefore I'm measuring them against the international index to give us some context, okay?

PATTY: Uh-huh.

SCOTT: So, remember, as always, the first thing you should always look for when you look for investments are losses, because the losses are speaking to you, right? Let's find the biggest loss on the whole chart. Here it is right here. See that minus 23 percent? That's the biggest lost. Over here at the right, there's a minus

11, then a minus 15, and then a minus 13. See it right there? Those are the four biggest losses on the whole chart. Roy, you see that?

ROY: Uh-huh.

SCOTT: All right. Now, besides those losses, what do you notice about these other losses? Minus six, minus five, minus four, minus .43, minus .1, minus .74, minus eight, minus four. What do you notice about those other losses?

PATTY: They're lower than . .

SCOTT: They're small. Is it fair to say they happen infrequently and that they recover quickly? Do you see that? Okay, so let's take a look here. Let's go back to 2008 when you guys lost at half your money, right? So, here we are in 2008. Let's take a look at what happened. Had you been invested in the stock market, you'd have lost 37 percent of your money just in that year alone. That's a huge loss, isn't it? But had been invested in these private wealth strategies, as shown here, you'd have been up three and a half percent, down eight -- now, I hate an eight percent loss, but you know what an eight percent loss is better than? A 37 percent loss, right? Up 22, up five, and up 13. If you'd been invest in those five holdings equally, one of the five would have had a loss. The other three would have had gains, and instead of losing money that year, you would have had a profit. Do you see it?

PATTY: Yeah.

SCOTT: You know, we just had an election cycle, and in that election cycle you heard these politicians out there demonizing the wealthy. The rich keep getting richer and the middle class keeps struggling. They make it sound like there's something nefarious going on, like the rich are sitting around in top hats and monocles, petting bald cats, going "Bwaa ha ha ha!" plotting all these plans to do weird. They're not doing that at all! Wealthy people are just regular people. They're just regular people. They just do things differently than the middle class does. They don't experience losses like you do. You see, clearly, they experience losses, see it right there? It will happen. But if they're going to take a loss, it's a small loss that happens infrequently, that they can recover from quickly. And look over here at the international investments. The international market in 2008 went down a staggering 43 percent. That is a huge loss, guys. If you'd have been invested in the international investments, as demonstrated here, you'd have been up 17, down 11, up 26. If you'd have been invested in those three equally, you'd have made a nice profit on your money that year. You see that? That's it.

This is how you get ahead. You don't take losses like everyone else does. Now, and this is not just a one-trick pony. This is not just the housing bubble of '08. Remember the dot com bubble of 2000, '01 and '02? Look down here at the bottom. You see right here the year 2000 when the dot com bubble started to burst, the markets when down seven percent that year. Excuse me, nine percent. That year we're talking nine percent, up seven, up 44, up eight, up 15. If you'd been invested those four equally, you not only wouldn't have lost money, you would have made a pretty handy profit on your money that year, wouldn't you?

PATTY: Yeah.

SCOTT: That's pretty good, isn't it? Now 2001 is a really interesting year to me. Look at this. Remember, the Twin Towers came down in 2001? The market was down 11, down six, down one, down .39, up 11. Three of the four lost money. You see that? Only one made a positive return, as demonstrated here. But you know what's interesting? If you'd have been invested in those four holdings equally that year as demonstrated here, you know you wouldn't have lost money, you would have made a profit. Now, it wouldn't have been a big profit but it would have been a profit. Why did it make a profit? Not because this guy did so well, but because the other ones did what? Kept their losses small. You see that, guys? If you keep your losses small, it's easy to recover from. You see that? Now look at 2002. Something happened that year that I absolutely hate, but it will happen from time to time. The market went down 22 percent, and one of the strategies not only went down, it lost more money than the market. You see that? I hate it when that happens, but it's going to happen from time to time. But, notice the market went down 22, this guy was down 23, but what did the other ones do? Up 17, up 11, up three. If you'd been invested in those four holdings equally in 2002, you not only wouldn't have lost money you would have made a slight profit on your money. So let's look at what would have happened to you guys had you been invested in these holdings as demonstrated here. If you'd have been in the stock market, your money would have peaked in the year 2000. Then you would have had three straight years of losses. After three straight years of losses, you would have been down 45%. Then you would have spent 2003, 4, 5, 6 and 7 just to get back to even to where you were in 2000. That's seven wasted years, right guys?

PATTY: Right.

SCOTT: Then, just about the time you get back to even, what happens? The housing bubble smacks the market again, right? And you lose about 50 percent of our money, and then you take 2009, 10,11 and 12 just to to get back to even. Your 2012. You're back to even. But to where? The same even you were in back here in 2000. That's 12 wasted years. You see that? That's a fatal fluctuation. Whereas if you'd been invested in these holdings as demonstrated here in the year 2000, you'd have made a nice profit on your money. In 2001 you would have made a slight profit. 2002 you would have made a slight profit. So, when everybody else is down 45 percent, you have a profit. And then you spent 2003, four, five, six, seven building on top of that profit. Just when everybody's getting back to even, you got a nice profit. And then everyone get pole-axed, right, and loses a bunch of money, and what do you do? You make another profit when they're losing, and while they're spending the next four or five years just trying to get back to even, you're building, building, building, and building on your profit. So, in 2012, when everybody's going "Finally! I'm back to even!" you guys have a profit. That why the rich keep getting richer. You see that?

PATTY: Uh-huh.

SCOTT: You know, earlier remember I made the comment when was talking about your portfolio how I took these investments and I put them all together and I back-tested them to 2000? I want you to look at what happened. Your private pension, does it every lose money?

PATTY: No.

SCOTT: It doesn't, does it? All right, so you don't lose money in your private pension. Let's use the year 2015. Private pension would have made money. Look at your low-risk investments here. Remember, I showed you that all four of them would have lost money in 2015? So, you would have had a small portion of your portfolio, the lowest investments, that would have been down two and a half percent. So, you would have had a profit on your private pension, a small loss on your low-risk investments, and look at your moderate-risk investments in 2015. This is really interesting. Loss, loss, gain, loss, loss. If you had been invested in those five holdings equally, four of the five would have had losses, one would have had gains, you would have had a profit on your money that year; not because this guy did so well, but what happened with the other guys?

PATTY: Small loss.

SCOTT: They kept the losses small! And look at international investments. Down five, up five, up two. You would have had a profit there, too. So, what I'm saying to you is that in 2015, the worst year I'm showing up here, you would have had a profit on your private pension, a small loss on you low-risk investments, and a small gain on your moderate-risk investments. Going back to my statement of the portfolio as demonstrated here back-tested to 2000, never had a single calendar year in which you would have had a loss. Now, intra-year, you would have had some ups and downs, but by the end of the calendar year, you would have had no losses at all. And I think with your risk tolerance, I built it to try to give you some peace of mind.

PATTY: Right.

SCOTT: Right? You like that?

PATTY: Yeah.

SCOTT: Yeah. now, I'm not saying that's going to happen in the future. There's probably going to be years in the future where you have losses, but if you have losses, let's do our best to contain them. Does that make sense, guys?

PATTY: Yeah. It does.

SCOTT: Do you see that? Based on what you see here, any questions?

PATTY: No. I have none. No questions.

SCOTT: This where I need feedback. Off the table, on the table?

PATTY: Off the table. I mean, on the table!

SCOTT: Off the table?

ROY: No, on!

PATTY: On.

ROY: Yeah, on the table.

SCOTT: Oh, on. Okay. I want you to say the right thing. Get it right, Patty. On the table. So, on the table so we like this then. So, what have we done here so far here? We've put your portfolio together the same way that many wealthy people put their portfolios together, all right? Now, think about this. Wealthy people have a certain amount of money. Now, they have more money than you, but they have a certain amount of money and they have a certainly lifestyle they want to live. Now, their lifestyle may involve a private jet, but they have a lifestyle, okay? So, what do they do to make sure they can always live their lifestyle? They take a portion of their money and they invest it in things like a private pension, for instance. That does what? Pays them guaranteed income for how long?

ROY: The rest of their life.

SCOTT: The rest of their life. That gives them all the income they need to accomplish all their goals. They then take the rest of their money and leave whatever they need to have in cash, okay, and the rest of it goes over here and invests in things like private wealth strategies, which clearly will have losses from time to time. See it? They will have losses from time to time, but they're small losses that are infrequent that recover quickly. And that's what they do for their entire lives. And then when they pass away, they pass it down to the next generation, to their children, who then repeat that process, who then pass it to the next generation, who repeat that process. That's how you pass a multigenerational wealth legacy from one generation to the next. Live your life the way you want, accomplish your goals, and pass it on by not taking big losses. You guys see it?

ROY & PATTY: Yup.

SCOTT: That's what we've done so far. So far, looking pretty good. Am I going down the right path here, guys?

ROY: Yes.

SCOTT: Very good. All right. Now, what I want to do is I want to move onto my fourth commitment to you guys. I told you I would do a risk analysis for you, okay? So, let's talk about risk.