Meredith :	00:06	Hey Daniel, how are ya?
Daniel:	00:08	Hey, I'm amazing. How are you?
Meredith :	00:09	I am good. So, today I have my friend, who probably lives about 10 minutes from my office, ironically, Dr. Daniel Crosby. And so for those of us in advisory, a lot of us know you where you're the rock star that you are, but for those that don't, I want to kind of explain Daniel's background which is especially relevant in today's times. Daniel Crosby is a psychologist and behavioral finance experts. And what that means in English, if you look at that as it pertains to asset management, he studies the psychology from everything from financial product design to security selection. He's the author of multiple books and the New York Times bestselling coauthor of the New York Times bestseller "Personal Benchmark." We're going to talk some about all this, but let's, let's just kind of dive in because behavioral finance, for again the lay person. Let's start with what the heck is behavioral finance, Daniel?
Daniel:	01:13	Yeah. So, behavioral finance is finance that accounts for the messiness of human beings. When we look at a lot of historical econometric models, they were built on the easy assumptions that were mathematically elegant and very rational and assumes people always weigh out all their options perfectly, that they always make the best choice for them. But as anyone who's ever been to a bar or a concert knows, people don't always act the way they ought to act. And so behavioral finances is studying markets as they pertain to the intersection of markets and the human mind.
Meredith :	01:52	Got It. And with that in mind, I mean this is an esoteric concept, obviously. When would you say the inception was, when it really started getting studied and looked at?
Daniel:	02:05	Well, so Adam Smith wrote about this. I mean, so it's really, it's really fascinating because most people think of it as a relatively new construct. They've given out three Nobel prizes for it all in like the last 15 years. And so I would say that it has caught on lately, but that as early as Adam Smith and theory of moral sentiments, he was writing about animal spirits and how people's sort of baser instincts enter into the buying and selling of securities. So been around in some form for a long time, been codified and popularized in the last for 40 years, I'd say.

Meredith :	02:49	Got It. And so I know you went to Brigham Young and Emory here in Atlanta. When did you become interested in this topic?
Daniel:	03:02	Well, so, it's fascinating, and I think my journey actually reflects a lot of people's journeys around this. I was not interested in it. You know, my dad is a financial advisor, is still is a financial advisor, and there was talk of me going into the family business, me becoming an advisor myself. And I was always like, "Eh, you know, I'm not a numbers guy. I'm a people person, and I want to study human behavior and that's separate and distinct from what you do, Dad." And so I, I got my Ph.D. In clinical psychology. I really trained to be a shrink and to help people going through hard times. But that started to sort of take its toll on me, and 40 or 50 hours a week of just really intense therapeutic work was too much for me. And so I said, "Look, I love studying human behavior, but I want to do it in a nonclinical, nonmedical setting." And you know, long story short, I discovered behavioral economics. And lo and behold, there's more human behavior in the stock market than there is just about anywhere else. And so I think a lot of us begin with this sort of black and white understanding of markets are numbers, and they're rational, and they're black and white. But that's hardly the case.
Meredith :	04:22	Yeah, well, no joke. Again, especially this day and time. It's absolutely, with all the volatility, it's really interesting looking at this. And I think, for the first time since '08, a lot of those of us that are advisors are getting tested with our conviction around behavioral finance and how not to let it go to our own heads when we get clients that call in and how to have those meaningful conversations with clients at that point. So one thing also, I know you kind of developed; it was called the Irrationality Index. So what the heck is this? Explain it how it works. I am dying to hear about this.
Daniel:	05:04	So the Irrationality Index was just my attempt to put numbers to emotions, right? I mean, it was just my attempt to try and express numerically the degree of greed or fear in the marketplace at any given time. And so, not surprisingly, what we find is it's a 0 to 100 score. And so what we find is the more fearful, the closer we are to zero, the better a time it is to buy. And the closer we are to 100, the better time it is to sell. But human behavior tends to run in absolutely opposite direction, right? So when March 9th, 2009, the Irrationality Index went below 10, the lowest reading ever since I had

started tracking it. And of course, when you look at what people were doing at that time, flows into equities were going drastically negative at the best time to buy in the last 20 years.

Daniel:	[06:15]()	People are pulling money out faster than than they ever had before. And to me, this is the great use of a financial advisor because everyone thinks they're going to do the right thing, right? Everyone thinks that people who lived through 2008, 2009, they go, "The next time we get an opportunity like that, I'm not gonna freak out this time. I'm going to be buying with both hands." And the research just suggests that you don't do that. Unless you have someone there. You have a process; you have a plan. And you have a guide in real time to help you realize and take advantage of those opportunities. And so it's just a simple attempt to numerically express what you probably know already.
Daniel:	[07:01]()	It's no surprise to anyone that people were freaking out in 2009. It's no surprise that people are freaking out this week. And yet understanding that we tend to do exactly the wrong thing at the wrong time can help us be a little better, especially if we have a coach in our corner. And I guess it goes back to, we all have inherent biases. And as much as we'd like to think that we can coach ourselves through it, it's impossible to do so because we're human beings. [Yes, exactly.] And you know, my favorite example of this is in 1993, the Food and Drug Administration required us to start labeling all of our food, right? So now when you go buy whatever at the grocery store, you know, you know how many calories, fat, protein, whatever, with the idea being ostensibly that if you know what you're putting in your body, you can make better decisions about what you put in your body.
Daniel:	[08:03]()	Well, since that time, Americans are twice as obese and three times as morbidly obese. Now we've got perfect information about what we should and shouldn't be eating. And yet we just don't follow it. And so, I like to say that there are three legs to the stool of doing the right thing in markets. The first leg of the stool is education. So we need to read books. We need to be tutored by our advisor. We need to seek out these best sources of education, so we know what we're looking for; we know how to behave. The second thing that we need is the right environment, which in this case is the right portfolio, which an advisor's going to help you arrive at. But then the third thing that we need is this "just in time" advice. Which is your coach effectively slapping that bad

decision out of you at the moment you're about to do something stupid. Because even knowing the right thing to do and having the right portfolio are not protection enough against against bad behavior, sadly. And the food labels tell us, tell us this pretty dramatically, I think.

Meredith :	09:16	So I want to pull a quote from your most recent book, Behavioral Investor. A correct me if I'm getting some of this right or wrong. It was "living a great life is fundamentally about scraping away all of the bad lessons and fallacious visions of happiness that you've been sold. It's about realizing that the less you need to be special, the more special you'll become." So how does this translate to behavioral finance and behavioral investing?
Daniel:	09:50	Yeah. so this is one of the toughest things for investors to learn because the key to becoming a good behavioral investor is knowing that you are just as susceptible to bad behavior and stupid mistakes as the next person. Each of us, men are more prone to this than women, pretty dramatically so, but women still exhibit overconfidence. So, each of us tends to be overconfident. We tend to think we're better drivers, smarter, better looking, whatever. We think that we're better than average, and this has an insulating function for us. It helps us get out of bed in the morning. It helps us do things like start a small business. You know at what you do; the failure rate for financial advisors is like 80%. So, if you had weighed out the odds probabilistically, you would've said, "Look, it's a dumb idea. It's a dumb idea for me to start this business because probabilistically, it was a dumb idea. And yet here you are, you know, very successful because candidly, you were just a little overconfident. You said, "Look, it doesn't work for most people, but it'll work for me.".
Daniel:	11:04	So, being overconfident makes us happy. It leads us to start a restaurant, to start a small business, to talk to the pretty girl in your class. I think about me approaching my wife in college. I had no business, right? I was overconfident. And so it leads us to do a variety of really positive things. But if we take that overconfidence to markets, it's a disaster. And so the first thing we need to do is scrape away this idea that has worked for us in other facets of our life that we're different or we're special. And it's really, really hard for people to do because it served a good purpose elsewhere.
Meredith :	11:43	I got it. I want to hone in on something you just said, and I've seen multiple studies around it as it pertains to

gender and overconfidence. Can you speak more to that? Again I've seen several studies, but I want to get your perspective on it.

Daniel: [11:57] Yes. So, it's fascinating because women are, in every respect, better investors than men. And yet both women and men think that men are better investors. So women and men rate men as better investors. They assume that they're better professionally. They assume they're better in a retail context. And women beat men in investment clubs in retail (like sort of mom and pop type settings), and in professional hedge fund settings. And so there's a host of reasons why this is the case. Some of them have to do with nature, right? Men have about 10 times the level of testosterone than women do, and testosterone breeds what's called a winner's curse. So as you do well in a fight or in the stock market or whatever, your testosterone increases and increases and increases until you make dumber and dumber decisions effectively. You become more and more, you become more and more bold, until then you pick on someone who's too big for you or you take an out-size risk. So, even the way that women are physiologically wired with less testosterone leads them to make more prudent decisions. The way that women are socialized, for better or for worse, women are socialized to be less, I think, arrogant and confident than men. This has upsides and downsides, of course, in other settings, but in markets, women are less likely to go to cash. They're better diversified. They weight probability better. They're less likely to make dramatic swings. And so I want to be part of this new generation that's telling the story that, even the women only make up about a third of financial advisors, and even a smaller number of financial asset managers, financial professionals in that sphere, they're really quite good, and we have every reason to try and look to women as exemplars of what it is to be a good investor. My friend, Louann Lofton, wrote a book. It was called "Warren Buffet Invests like a Girl and You Should Too." And I think that kind of says it all.

Daniel: [14:20] Got It. No, that's pretty interesting. So, in one of the reviews of your most recent book, again, it was said, "Money is not just a means of exchange, but part of human identity. It's part of who we are. And therefore the decisions we make about spending, saving and investing money is not just a means of exchange. but part of human identity, it's part of who we are. And therefore the decisions we make about, again, spending saving are just a question arithmetic. Since many people basically the general public view investing as a plus and a minus of arithmetic or math." Can you expand on this? What's being said here? What does this mean?

Daniel: [15:04] Yeah. So I think what's, what's being said, there is this: We're all after the same thing. We want to live lives that are full of meaning. We want to pursue happiness. But these concepts like a "purposeful life" or a "happy life," these are hard to get your arms around. And so something like money ends up being a de facto way for us to keep score. And so when money becomes very, very emotionally fraught; a lot gets tied up with money. Things about identity; things about happiness. And so there's all this emotion wrapped up in money. And so again, people think what I used to think, which was that this is just a debits and credits. This is just a rational black and white enterprise. But the more you learn about money, the more you learn that it is the default proxy for happiness. Not, not saying that's the correct way to think about it, but that's how we do think about it. It's how we keep score. It's how we measure happiness. It's how we, unfortunately, try and ascribe wealth to people, or "worth" rather, to people. And so because it is shorthand for so many other things, it becomes an extremely emotional conversation. And to be good investors, to create a financial plan, we need to disentangle money from these other scripts that it serves.

Meredith : [16:36] It's these psychological anchors, I think, we have in our past. It seems like that it's back to creating biases. We're human beings and things like that.

Daniel: [16:45] Yeah, absolutely. Yeah. The way, the way that you grew up, the way that you were socialized money from an early age certainly has a great deal to do with your adult attitudes too.

Meredith : [16:57] Have there been studies, and this may be more of a sociology question and God knows, I've been interviewing some of the biggest sociologists in the country as of late doing calls like this, but has it been studied about people's financial background and how they grew up in their family and their view of money versus where they are right now and how some of those shifts might have changed?

Daniel: [17:22] Well, it's funny because I feel like money brings people to a fork in the road. Right? And so the way that you were raised, you either tend to run hard in that direction or run hard in the other direction. I think about someone like someone like my mom, who grew up in a very thrifty household in a place where money was tight and where thrift was encouraged. She's really gone the other direction, not irresponsibly so, but you know, she really values the best of everything, because she didn't have that. So, I feel like however you grow up, it serves as a line of demarcation, where in many cases, I find people are comfortable with that. But in many cases, people go, "You know what? I'm not going to do that. I'm going to reject the way I grew up."

Daniel: [18:13]

And I don't know, you know, human behavior is so varied and so quirky. I don't know any sure way to determine whether you're going to run with or against the money scripts of your youth. But I think it's good to be aware of them. Right? And not just default to an attitude around money. Something from my own life, I grew up in a house where my dad, again ,is a financial advisor. He's very much cut from a Dave Ramsey sort of cloth with respect to debt and personal finance. And I grew up with debt being a four letter word in my house. Literally my dad would not, I'm not joking, my dad would not let us say the word debt. He would shush us if we said it because he hated it so much.

Daniel: [19:00]

But then in my adult life, I didn't get a credit card until I was in my mid-thirties. I didn't have any credit history. Had always paid cash for cars; had no student loans. And I went to buy a house, and I could not buy a house. I had no credit history. And so I had to actually go get loans. I had to go get a car note to build a credit history to be able to buy a house. And so it sounds good on paper that debt's a four letter word, and certainly, debt can do a lot of damage. But if you don't question and look at these money scripts from your youth with a little nuance, I think you can be led astray sometimes.

Meredith : [19:43]

And you alluded to this a little bit earlier about the importance of an advisor, so an individual can kind of check themselves and their own biases. But is there something that somebody can do to better create self-awareness or around their own investing behavior? I mean, are there any tips in that respect?

Daniel: [20:07]

Yeah, so I think, you know, I think the first thing to do is educate yourself. And the cool thing about investing is you can read four or five books on investing and really figure out about 90% of what the experts know. I mean, you can get to a place of competence relatively fast. Because investing is simple, but it's not easy. And you could spend the rest of your life chasing that last 10%. So, if you read just even a handful of books you're going to be well on your way. And then the other thing is when you read a book like mine, when you read a book, like The Behavioral Investor or The Laws of Wealth, my last book that I wrote, a lot of times people read these books (you know, they're reading about human bias) and they go, "Oh that's my wife or that's my husband, or that's the guy at church. You know, they're using it as a window into other people's behavior. And I would encourage you to read books like mine as a mirror to read a book like that and to say, "Look, where am I going wrong? Where am I making mistakes?" And as you learn about human psychology, as you learn about financial psychology, use that as a mirror and not a window to sort of roast other people.

Meredith :	21:29	Got It. Do you find then, I don't know if there's a way to measure it, but that self-awareness is going to be, again, we're human beings, but all in all I would think it's lacking in most people. Like you said, it's easy to impose it upon somebody else as opposed to your own self.
Daniel:	21:46	Yeah, well, it just comes down to the old saying that a fish doesn't know it's wet. The biases and the attitudes that you grew up with respect to money, they don't feel strange to you. They just feel like the way things are. And so it's only when you come in contact with other people, you get married or you have a partner or whatever, you come in contact with other people's money scripts and you go, "Oh, maybe there are other ways to think about this. And so yeah, I think that's one of the ways that we begin to gain self-awareness. Because I think in our natural state, the way we are is just the way we are, and we take that for granted. And it's only as we come in contact with different situations and different people, that we begin to gain an awareness that the way we did things is not the only way that things can be done.
Meredith :	22:42	Got It. And I know in your Laws of Wealth book, you talk about two very well-known guys in our space, Ben Carlson and Jason Zweivig. I've never pronounced that right. I've heard Carl and Michael Kitces talk about them. How do you pronounce Jason's last name again?
Daniel:	22:59	Oh my goodness. Zweig? That's my best guess.
Meredith :	23:02	Yes. Okay. Yes. Okay. So, Ben said, "Markets don't usually perform the best when they go from good to great. They actually should have the best performance when things

		go from terrible to not so quite so terrible as before." So, if you could kind of expand on that quote first a little bit.
Daniel:	23:20	Yeah. So it's interesting, again, going back to this idea that people tend to be least invested when it's most opportune. So, one of the wild things about markets is that the preponderance of returns happen. The majority of returns happen a small minority of the time. Right? And that's why it's so important for people to stay invested. Because if you miss the best couple of days, you really miss out on a lot. And the tricky part is the best couple of days tend to immediately follow the worst few days. And so if the worst few days have scared you off, you tend not to be in a position to profit from the best few days. And so again, it's incumbent upon investors to become financial historians, because we're sitting here talking about terrorists and all kinds of geopolitical stuff, Brexit, tariffs, all the things that are topical right now in the news.
Daniel:	24:25	If you look back over World War I to present, (so, about a hundred years in the US), you've had multiple world wars. You've had multiple wars. You've had millions of people die. You've had all manner of atrocities and terrorism and pandemics. There is always something to worry about. You know, there's always something to worry about. And yet over that time, the ability of markets to climb a wall of worry and the ability of the human race to move forward and make progress in the face of overwhelming odds is really unbeaten. There's a great book on investing called "Triumph of the Optimists." And the title tells you a lot; the title tells you a lot...that in the end, it's the disciplined optimists that rule the day.
Meredith :	25:23	So, what do you say to the investor that always comes back and says, "It's different this time?" I remember like no less than a hundred people telling me that in '08. And I've got a couple right now that are telling me that. And so short of the same rhetoric that we're responsible for saying, what would you tell the investor that says that?
Daniel:	25:51	Well, so it's interesting, and this is why I'm a multi-asset class investor. Because if you are a historian of financial markets, there are indeed long periods of time where any given market can just be gutted. I mean, Japan is still negative whatever 40 years later. The US the had about a 12 year run where it went nowhere, and in the 2000s we had this lost decade, right? But if you had been allocated to an equal weight of European, Asian and US stocks, you would have had about a 7% return over that 10 years,

which is very historically normal. And so, yeah, on the one hand, like individual asset classes in individual countries go through a protracted period of pain. But here's the thing. If you own stocks, bonds, cash, commodities across a swath of the world, and it really is different this time and owning every asset class still gets you nowhere, we've got bigger problems. I mean, this is where you need to buy guns and cigarettes or something, because at this point, it's the Zombie apocalypse and things are bad. So, yeah, on the one hand, recessions happen, dips happen. It's incredible when you look at the last 35 years, the average drawdown within the space of the year has been 14% every year. Every year, we've seen, on average, a 14% dip. And yet the market has ended up 27 of those 35 years. And so I would not deny for a moment that countries and asset classes can go through protracted periods of pain. But if you own the world and if you own a host of different asset classes, I think over the long term you're going to be alright. And if you're not all right, it's the end of the world then we've got bigger problems.

Meredith :	28:06	So what do you say... I get more white papers sent to me. I have clients get solicited. And basically the gist of it is modern portfolio theory and diversification is dead. So what do you say to that?
Daniel:	28:22	So it's interesting. There's a chapter in The Laws of Wealth where I say, "The truest words in investing are: "This too shall pass."' And so we have this tendency as humankind to project the recent past into the future indefinitely. And so the reason why people are saying asset allocation and modern portfolio theory are dead is because the S&P has spanked an asset allocated portfolio for the last decade. Owning all US stocks has been the most sort of lucrative thing you could do for the last decade. Well, but the way that things work is markets mean revert. So cheap things tend to get expensive, and expensive things tend to get cheap. So, I don't have a crystal ball. But what happens typically is that over the medium to long term, things that have done well tend to do more poorly; things that have done poorly, tend to do better. And so that's why I just want to own everything. And so yeah, I don't believe that fundamentally anything has changed. I still believe in owning the world. I still in a multi-asset class approach. And the thing about investing is you can be right and still be an idiot. You can get a good result and still have done it for the wrong reason. So, there's almost no one, there's almost no one who should be 100% in US stocks. And yet if you were 100% in

		US stocks over the last decade, you did very nicely. So that's like playing blackjack and hitting when you're holding a 19 right? Maybe you get a two and you win. But it was still a stupid decision. And so I would say that over the long term, good investors control what's in their power, and what's in their power is making good decisions. And when you tend to make good decisions, you tend to have good long-term outcomes, even if the short-term can be a little bit painful.
Meredith :	30:36	Got It. So one thing I wanted to kind of go through, and we don't have to do huge deep dives, but I wanted to hit at more of a superficial level. You kind of developed these 10 rules of behavioral self-management. I was hoping, and I can prompt you on each one if that helps you (I'm sure you know them cold), but where we could kind of go through each one and then you do you build it out a little bit for me.
Daniel:	31:01	I know at least a couple off the top of my head. So, the first one is that "you control what matters most." So, you control that matters most. This was me being intentional. That's the first chapter. And the reason it's the first chapter is because most investors feel sort of tossed to and fro on the waves of volatility. They feel like the thing that's going to determine whether or not they reach retirement is what happens with Brexit or what President Trump tweets or what China does with tariffs. They feel like the best predictor of their success lies in all these externalities. And that's a very helpless way to feel. So in that chapter, I just break down, look, the best predictor of whether or not you reach your retirement goals is a handful of boring things like: Are you working with an advisor? Are you appropriately allocated? Are you saving a little money every month? Are you automating your saving and escalating? It's just boring. It's just boring, easy stuff. And so we tend to worry about things that are outside of our power. That's very damaging, and it's very frustrating. So that first chapter is me just trying to rest the power back, give it back to the individual investor.
Meredith :	32:20	I think people also think if it's too simple, it's not sophisticated enough and that there might be a better answer.
Daniel:	32:29	This is fascinating to me. You know, the business I had before I joined Brinker Capital as their Chief Behavioral Officer, I was developing investing strategies. I was investing, equity investing strategies, and selling these models. And they were simple. I mean that they were

		justsimple but they were also very good. And the biggest objection I got was: it's just too easy. You know, we think that getting results has to be esoteric. It has to be hard,it has to come from some confusing place. But the weird thing is, you find with a complex dynamic system, like the stock market, the complexity of it actually begs for simple solutions. If you try and meet complexity with complexity, you're gonna fail. And most complex solutions tend to be what's called overfit, right?
Daniel:	33:32	They use data mining and advanced statistical procedures to show what worked in the past, but the future doesn't always look like the past, and they kind of fall apart. So, I'm a huge fan of simplicity, even though it's sort of tough mentally to get our heads around simple solutions being effective.
Meredith :	33:51	Got It. Do you remember your rule two?
Daniel:	33:53	Yeah, it's about using an advisor. So, rule two is effectively you need an advisor, but not for the reason that you think. When you look at why most people hire a financial advisor, they go, "Well, I'm getting the market wizard of Roswell, Georgia. I'm going to hire the brightest financial mind of Roswell, Georgia, and she's gonna put me in high-flying stocks that help get me across the finish line." While the research shows that the best use of a financial advisor is to save you from yourself.
Daniel:	34:27	The studies show that people who work with financial advisors tend to do 2 to 3% better per year than those who do not, which is enormous when you compound that over a lifetime. But the reason is not because these advisors have some crystal ball. It's not because they have some magical insight into the world of investing. It's because they know good blocking and tackling, and they're going to keep you from a handful of really stupid mistakes that are gonna blow you up. So again, it's simple. It's not sexy. But 3% a year is sexy. You know, 3% a year in out-performance versus people who go it alone is quite sexy because it tends to compound...and in pretty dramatic ways over time.
Meredith :	35:13	Awesome. Rule number three.
Daniel:	35:15	Now I'm lost here. You gotta help me.
Meredith :	35:18	Okay, got it. "Trouble is opportunity.".

Daniel:	[35:21]()	Yes. So, we've talked a bit about this already, but I'll just say, this is where an advisor comes in and where automation comes in, right? Because everyone thinks they're going to do the right thing at the opportune time. But the next time we have a March of 2009, it's going to feel so dark and so scary that if you're not working with a professional or you don't have just an automated system that requires you to do the right thing, I promise you that discretionarily, there's almost no chance that you'll do the right thing. So, that's important.
Meredith :	[35:56]()	Got It. So, number four is "If you're excited, it's a bad idea.".
Daniel:	[36:02]()	So this goes back to our simplicity conversation. Good investing is as boring as watching paint dry. You know, good investing is just painfully simple. And sort of tepid and easy. And so, if you're excited about something, whether you're excited to the upside or the downside, it's almost universally about idea. I bring in an acronym from the addiction literature here. It's called HALT, and it stands for hungry, angry, lonely, or tired. And so in the 12 step programs, you learn that if you're any of these things (hungry, angry, lonely, or tired) you shouldn't make a decision. And the same thing applies here. If you're excited about an investment option, it's almost necessarily a bad idea. It's almost necessarily too volatile. Ditto. If you're super scared.
Meredith :	[36:52]()	Interesting. That's a pretty good rule too. I've seen that play out in very negative ways.
Daniel:	[36:58]()	Yeah. It saves you from a lot of pain, and it's a good sort of checkpoint to say, "Hey, this may not make sense."
Meredith :	[37:07]()	Yeah, absolutely. So rule number five. I love this. "You are not special.".
Daniel:	[37:13]()	Yeah. We talked about that one earlier too, about stripping away this idea that you're different. The example I give in some of my talks is I had a guy come to me after I gave a presentation. He said, "I've got $2 million. 1 million of it is sort of asset allocated. It's broadly diversified. And another million of it is in Apple stock. What do you think about the prospects for Apple stock going into the future?" And I was very bullish on Apple at the time, but I did not tell him that. I said, "Look, regardless of what I think about Apple stock, what you're doing is dumb. You know what you're doing is dumb because you know about diversification. You know about

		not keeping all of your eggs in one basket. So, if Apple doubles from here, you still did the wrong thing. If you don't diversify away from this concentrated position." So again, it's hitting on 19 and getting a two. Sometimes you're going to get a two. Usually you won't. And so long-term, the best investors slavishly follow rules, and they do the right thing, and they make the right decisions.
Meredith :	38:29	Good. So, number six is "Your life is the best benchmark.".
Daniel:	38:34	Yeah. So, this is where I encourage people to work with their advisors to bring their values, meaning, and the personal side into naming those dollars. Best way to express this... There's a story that I share in the book where I talk about people who looked at a picture of their children for five seconds before making a financial decision were more than twice as likely to save as those who did not.
Daniel:	39:04	And so again, you're not going to have your advisor hold up a picture of your kids every time you're in a meeting. But the point is this, when we can use financial planning and conversations with advisors to tie finance back to the things we ought to be doing, the things we care about, it makes it a lot easier. When it's not just dollars and cents. When we tie those dollars and cents to a charity that we love or to people that we love or our dream of a good life, it gets a lot easier to do the right thing. So, money shouldn't be this impersonal thing. We should imbue our conversations around money with meaning and purpose.
Meredith :	39:42	So with that benchmark conversation, I know it's common for those of us where statements clearly have a benchmark to actual performance. And again, having a planning-centric practice, it's easy to have that conversation. But sometimes people still will look at the benchmark, which usually isn't the S&P because you're looking at diversified portfolios. But certainly that's a component of some sort of weighted benchmark. So, are you essentially saying the plan and the values of the family are going to be more important to use as a benchmark than the actual sort of mathematical arithmetic weighted benchmark that said money manager provides?
Daniel:	40:31	That's correct. So, personally, I look at progress towards goals. I look at progress towards goals; that's my benchmark. If my benchmark is to leave money to my university to send my kids to college and to retire with

		my wife, those are sort of my three primary goals. I look at the progress that I'm making towards those goals. Now, how the market has performed is germane to that discussion. I mean, that's part of it. That's going to have a positive or negative effect on my progress towards those goals. But it's not exhaustive of that discussion and certainly not comparing a diversified portfolio to the S&P, which is something that I see a lot of people doing . Because trust me, you may want some of the upside that holding an all stock portfolio provides. I promise you, you do not want all of the downside. I mean there have been two day periods where the S&P has lost 40%. That is a gut-wrenching ride that almost no one can take. So you don't, if you mess with the bull, you get the horns with the S&P. It giveth and it taketh away, for sure.
Meredith :	[41:47]()	So, your rule number seven is "Forecasting is for weathermen."
Daniel:	[41:52]()	Yeah. So a lot of folks want to watch financial news. We had a CNBC Markets in Turmoil special last night. And it's funny because someone someone on Twitter I saw yesterday showed how Markets in Turmoil segments have been incredible buying opportunities. So every time the market gets bad enough that they do a special on it, well, it tends to kind of flip around. And so, that may not always be the case, but it's interesting that that almost no one knows what's going to happen. And this is, again, just another shout out to broad diversification and controlling the things you can control. No one knows what's going to happen. This week, we had the market was down this week because of a tweet from President Trump about about the trade war, from currency devaluation from China and from a host of shootings. None of these things are predictable before the fact. Right? All you can do is own the world, stay the course, and that's going to be your best bet.
Meredith :	[43:07]()	Yeah. I know. Some people refer to a lot of this news and stuff as "financial pornography," and you need to stay away from this stuff, letting it in your feed, because it's back to the effects, how you view information and biases and things like that.
Daniel:	[43:23]()	That's right. Yeah, that's right.
Meredith :	[43:26]()	So, the next rule was "Excess is never permanent."
Daniel:	[43:32]()	Yeah, this is the one where I talk about "This too shall pass." And it's overcoming this fundamental human

tendency. We have to look at the recent past and project it into the future indefinitely, right? So , in March of 2009, people were looking at the recent past. The recent past was heartbreaking losses in the stock market. And they said, "This time is different. All we're going to get going forward is heartbreaking loss. Simultaneously, we've now, 10 years into a bull market, we've got people who looked at average double digit returns for each of the last 10 years going, "Oh, well, this is all we've got now. I saw someone, honest to goodness, on financial news a couple weeks ago, say that there would never be a recession again in this country. It's insane, right? Whatever you're going through, right? "This too shall pass." And that phrase should cause us to be hopeful in times when the markets are crummy, and it should chasten us at times when the markets are really good. It's the perfect phrase because when things are gloomy, you know they're going to get better. And when things are great, you don't want to get so crazy with your risk that you do something foolish.

Meredith :	45:00	Got It. So your number nine. I love this one. "Diversification means you're always having to say you're sorry."
Daniel:	45:06	Yeah. So diversification is, of course, the right thing to do. But if you're the advisor, that means that people are coming into your office going, "What am I paying you for? Why didn't you just buy the S&P? Why didn't I just buy the S&P my eTrade account and fire you?" So if you're properly diversified, something will almost always be doing poorly. And it's a weird thing to think about, that you would seek that out. But the flip-side of that is something's almost always going to be doing well, too. And so proper diversification means that something in your portfolio is always going to be under-performing, and you're always going to have to say, "Hey, sorry this didn't work this last go round. But again, it's likely to work in the future." So it's the right thing to do. But it means always having to say you're sorry.
Meredith :	46:02	Yeah, that's a good movie by the way. I guess it's classic recency bias essentially. To your point earlier with the S&P the last 10 years just being gangbusters. I've found with Millennials who might not have lived through having significant money in markets in that time, it's hard to explain the emotions that I've seen in a lot of my baby boomers, what they went through during that time. And having to have conversations, long involved emotional conversations in '08 and '09.

Daniel:	[46:35]()	Well, those are really a lot of untested investors. I mean, we're looking at one of the largest, the longest expansions in history, if not the longest. And so, there's a lot of young investors. You know, I'm just barely old enough to have ever seen a bad market. I went to so much school that I didn't get my first job until I was 28-years-old. And then quickly we had the great great financial crisis. But, you know, people a year or two younger than me have never seen a bad market. And it's actually spoiled us and given us some really unrealistic expectations that make it a little scary for young people.
Meredith :	[47:20]()	Right. I don't hear as often as I used to, but everybody comes back to the market average over long durations. And as we know, it assumes growth in a linear fashion as opposed to making assumptions around volatility and, and things of that nature.
Daniel:	[47:40]()	Yeah, yeah. Markets pay well because they're uncertain. That's effectively what you're getting paid for...bearing uncertainty. And it's a bumpy ride, but it tends to be a good ride over 30 or 40 years. But it's certainly not a smooth up and to the right ride all the time.
Meredith :	[48:01]()	Right. And so your tenth rule was "Risk is not a squiggly line," which I guess speaks to what we're just talking about.
Daniel:	[48:08]()	Yeah, it does. What I mean by "risk is not a squiggly line." I'm sort of picking on academic concepts of risk there. These models that folks build, they need some easy stand-in for risk. And the stand-in for risk in econometric models is volatility. But I say that the biggest risk to your portfolio is not volatility. Because volatility is going to happen, right? Every year you're going to get, on average, a 10% plus drop. Every couple of years you're going to get a bigger drop. That's just kinda how it goes. The biggest threat to your portfolio is you; the biggest threat to your portfolio is not volatility. We've had wars and famine and every other thing, and things have still gone okay over the medium term. The biggest threat to your portfolio is that you're going to be so spooked by those things, I, that, that you're going to do the wrong thing. So again, it begins and ends with the investor.
Meredith :	[49:12]()	Got It. Okay. So, Daniel, you got me a lot of information. That was pretty great. If you were going to distill, (obviously, there's so many embedded tips in here), but if you were going to distill it down to like the top three

tips, what would you say for the average investor, what would those three tips be?

Daniel: 49:30 So, three tips. The first one doesn't show up in any of my books, and I think it's a powerful one. It's to invest in yourself. So, one of the things that's difficult is you can't bleed a stone, right? Like you can't, you can't save and invest any money that you're not making. So the best thing you can do is to crank up your earning power, right? To crank up your earning power, take courses, take courses online, go back to school, get CE, whatever it is, ask for a raise. Whatever it takes for you to increase your earning power, that's going to be your number one resource is still your paycheck. So invest in yourself and your education are, the second thing I would say is to work with an advisor.

Daniel: 50:19 This one covers so many of the others, like working with an advisor is gonna keep you on that path. It's like a personal trainer for your financial life. We all know what we're supposed to do with diet and exercise, right? You're supposed to eat less and move more. Like that's, everybody knows that and yet it's incredibly hard to do. And so even if you know exactly what you need to be doing with your money, you still can benefit from an adviser to keep you on the straight and narrow. And then the last thing I would say is to just automate, to automate good practices, right? It's tough to make the right decision again and again and again. It's tough every two weeks when your paycheck comes to go, okay, now I'm going to move a little money over. Now I'm going to save, now I'm going to take risks.

Daniel: 51:10 It's very easy to set it and forget it, to automate the process of withdrawing, to automate the process of investing in escalating those investments over time. So what gets automated gets done. So I tell people to invest in themselves, in their earning power, to work with an advisor and to automate best practices.

Meredith : 51:29 Got It. And so how would an investor get in touch with you or read? Where could they find any of your books? Maybe you could just address that.

Daniel: 51:40 Yeah, of course. So, The Behavioral Investor and The Laws of Wealth are available on Amazon. Probably the easiest place to find them. And then I have my own podcast called Standard Deviations, where I talk about many of the same things that we've talked about here today.

Meredith :	51:56	That's great, Daniel. Thank you.