Ep:8 Forbes Top Advisor Summit: Highlights from Industry Leaders

March 7, 2019

PATTI BRENNAN: Hi there. Welcome to "The Patti Brennan Show." Whether you have $20 or $20 million, this show is for those of you who want to protect, grow, and use your assets to live your very best lives.

This week, I'm going to be talking and giving you some of the highlights of what I believe is one of the best conferences that I go to each year. It's the Forbes/SHOOK Conference. It is an invitation only conference comprised of about 1,000 of the top minds in the country as it relates to financial planning, tax, investments, etc.

I got to tell you, this year was no exception. It was outstanding. As I was sitting there, furiously taking my notes to bring back to my office, it occurred to me that you might appreciate hearing some of the things that I learned this year. I'm going to share with you the highlights of everything that I learned at this conference.

Before I do so, I want to tell you a story about something that happened to me as I was traveling. I knew I was going to be sitting on a plane for about 13 hours. Just as I was leaving, a friend of mine had dropped off a book that she really enjoyed, and I just throw it into my bag.

The name of the book is called "The Pope and the CEO" by Andreas Widmer. As I was reading this, I was captivated by so many of the things that he wrote about as it relates to what we do in our world today.

Basically, the book is about a man who was chosen to be a Swiss Army Guard for Pope John Paul II. He talked about all of the things that he learned from John Paul that, honestly, I never realized. For example, I never realized that the pope was such a fervent believer in capitalism.

By the way, I should do this sidebar. This man, Andreas Widmer, went on to become the CEO of many very, very successful businesses. He took the principles that he learned from the pope and applied them to his business life.

He talked about the idea, for example, of John Paul's beliefs, real, fervent beliefs. One of them was the impact of vocation. John Paul believed that vocation, which is defined as someone's calling, is something that we all are brought to this world to do. He believed that a vocation in business was as honorable as the priesthood, or a social work, or anything else.

Capitalism, which he also strongly believed in, was defined by John Paul as the ability to serve the need and the want of another human being, because as we do that, when we serve another individual who is also a child of God, in so doing, we also serve God.

I don't know about you. I just thought that that was so powerful. I take that with me every day now and understand that as I sit with anyone, as I do this podcast, it is my hope that in so doing, I am fulfilling my vocation.

Moving forward, as we get into this [laughs] Sorry about that, everybody let me tell you some of the things and explain what I learned in this incredible conference, the Forbes/SHOOK Conference in Las Vegas.

One of the first speakers was Rick Rieder, the Chief Investment Officer of Blackstone's fixed income department. Blackstone is one of the largest fixed income managers in the entire world. Rick was amazing.

I will also tell you that one of the main themes that just kept on popping up time and time again through the conference was that the Federal Reserve is probably done. He said the Federal Reserve, Jerome Powell, has literally taken 180 degree turn and probably will not increase interest rates at any point this year.

He also said, as it relates to your bond portfolio, etc., something that was I thought really interesting, he said there's not enough fixed income in the world to go around. He said the size of the market has halved while the demand has doubled. He went on to say that markets go down five times faster than they go up. We certainly felt that in the fourth quarter of 2018.

The one question that was asked of him, which I thought was a really great question, someone in the audience said, "If you could know something now instead of having to wait until the end of the year, what would it be?"

His answer, right away, was, "Is China growing?" I thought that was fascinating. Just this morning, there was a commentator on CNBC talking about the importance of the Chinese consumer.

He went on to say that the Chinese consumer loves luxury goods and is the second largest consumer of the luxury goods market, and yet it represents 85 percent of the growth according to Bain Capital. It's a very, very important country. It's a very important economy as it relates to the rest of the world.

Steve Forbes came on next. He was one of the keynote speakers. He was especially entertaining with his perspective on a whole bunch of different topics. He talked about the wealth tax that is being proposed and tossed around in the Democratic Party.

His only comment on that was that the wealth tax, if it didn't work in France, it's not going to work anywhere. He went on to make almost a moral case for capitalism. I loved his definition of it.

He said capitalism is simply defined as meeting the needs and wants of other people. If you're in business and if you're doing a really good job, if you have goods or services, if you are growing, it is because you are successfully meeting the needs or the wants of other people. Sometimes they don't even realize that they want it yet.

Think about Apple. Think about the iPad and what that has morphed into in terms of the iPhone and the impact of the iPhone on economies all over the world and people all over the world in terms of their ability to get knowledge much faster than ever before.

It's kind of like when the car was invented, right? When the car was invented in the early 1900, it would cost $138,000 to build a car. Nobody could afford a car. Then Henry Ford came along with the assembly line.

Basically, capitalism, as Steve Forbes talked about, it turned scarcity into abundance. More people could afford to buy a car and think about the impact of people having cars on our economy. He then talked about trade and tariffs. His feeling I think probably most of us would agree is that it's far better to have trade across borders than troops across borders.

Tariffs probably are not a good idea. Tariffs especially hurt China, but they also hurt us. His belief is it is better to slap on a sanction against specific abusers than a tariff affecting everyone.

Getting back to the general theme over and over again as it relates to interest rates, he didn't really have a prediction on this but reinforce the concept that interest is the rent that we pay for money. Michael Farr, in his February 28th commentary, explained why interest rates are the grieves of the economy. On the face of it, everyone loves free money.

If I can borrow with zero percent for five years for my car, I'm more inclined to buy a car or maybe an appliance. I'm certainly going to think about buying a bigger car or bigger house if I only have to pay four percent on my mortgage instead of six.

This can lead to reckless decisions because the principal has to be paid back. That's especially not a great outcome if you're buying an asset that is declining in value. He compares this to kids and candy. I have four grown children. I will tell you that if I let them, they would eat candy all day long until they were sick and throwing up.

Eventually, kids need nutrition. Eventually, the economy, if there is too much debt, you have to pay the debt back. There's got to be income in order to do so. The good news is that the Federal Reserve is probably done, but we have to be very careful about debts and the rise in the federal debt.

Brendan Ahern, again, the Federal Reserve, same topic, etc. He went on to give real data as to why he believes the fed is done. Inflation is running at 1.9 percent. GDP is at three percent. Wages are increasing. It was interesting. I wish I could tell you who it was, but somebody else said that wage increases don't cause inflation. Inflation causes the need to increase wages.

I thought that was a very interesting perspective. On a global basis, expectations are very, very low but especially in the emerging markets. A central theme over and over again is that the emerging markets represent valuations that are really appealing.

Professor Jeremy Siegel from Wharton, University of Pennsylvania came in. Boy, he is always just so interesting because he's got that academic approach. He's got the practical approach that reinforces why he so passionately believes in what he believes.

He started out with the discussion, among other things, of the Shiller/CAPE ratio. Dr. Shiller, he acknowledged that there's different ways to try and ascertain whether or not a market is valued fairly, or undervalued, or overvalued.

A lot of people look at the CAPE ratio and get really nervous because as of December, it was just about 30, when the mean over a long period of time has been about 17. It would be natural to freak out and say, "The market is way overvalued. The CAPE ratio is 30. We should get out. It's going to crash."

A lot of people come into my office with that concern. What Dr. Shiller pointed out very coherently is that...By the way, as a sidebar, he and Bob Shiller are very, very good friends. They almost have this interesting competitive academic debate as it relates to what their theories are.

He doesn't believe it's a relevant way of measuring valuation mainly because of a big change in the accounting rules that occur in 1997 by FASB. That was a point in time when they introduced this thing called mark to market. Among other things, it's just not relevant anymore because the way the accounting is done is different. The old rules don't necessarily exist.

Then Dr. Siegel gave a very clear example 10 years out of the financial crisis. He said when you look back to May of 2009, understanding that the historical mean of the CAPE ratio has been 17 in May of 2009, it climbed over 17 for the first time since the crisis.

Keep in mind, if we can go back, the market bottomed at 6,500. At that point, the market was trading at 8,500. Of course, it had gone up 2,000 points. The CAPE ratio was over 17. It was massively overvalued according to Shiller.

Let's fast forward. It is now 10 years, that magic period of time that makes up the index. It went from 8,500 to 26,000 on the Dow. Again, probably not a relevant index to determine whether or not the market is overvalued, undervalued, or fairly valued.

He also reinforced another theme regarding the emerging markets. Giving a little bit more content as it relates to the why, he said the currencies in the emerging markets are stronger than they were last year. The P/E ratios are running between 8 and 10. The dividend yields in the emerging markets are running between five and six percent.

While this area of the world, emerging markets, are probably the lowest hanging fruit as with everything that I talked about in this podcast, do not go out and load up on this asset class. Please talk to your adviser and understand the risks associated with this in all asset classes. Make sure that it fits within your financial plan.

Finally, Dr. Siegel acknowledged the climb of the US debt to $22 trillion. That's trillion with a T. It's almost hard for me to even say. He compared the US debt to GDP, which is the way that most economists look at it. He acknowledged that it is definitely high on an absolute basis but not on a financing basis.

In my opinion, the only thing that's going to motivate politicians to do something about the deficit is when the debt becomes completely unsustainable on a financing basis. When does that happen? When interest rates rise, recessions occur, etc.

While most of the content with the meeting was educational, there were people speaking on topics relevant to all of us. Dr. Jordan Slane talked about the 10 strategies to optimize your life and longevity. Jon Fussell, a former SEAL team leader, spoke about the power of people working together.

It might be that I loved his presentation because it reinforced everything I believe, but I just found the way that he presented it to be so compelling. He asked all of us. He said, "When you think about your businesses, do you have a group or do you have a team?"

What a team can accomplish is very different than a group. This is me talking. This is the way I look at it. A team is comprised of people who are interdependent, with complementary skills.

It's like a baseball team. If you have a team of nine absolutely amazing pitchers and the best pitchers in the league, you're not going to win a game. Someone needs to be able to hit the ball. A team of people with complementary skills is much stronger than those people are individually.

To summarize this conference…Of course, I haven't gone through all of the things that I learned. I just want to give you the highlights. There were three major takeaways that I got from the conference.

Number one, the Federal Reserve is probably done increasing interest rates. That is important for all of you as it relates to not just your bond portfolios but also your entire portfolio.

Number two, while growth is probably going to slow this year, no one is really seeing a recession for 2019. That's good news for all of us. Finally, I think that what Steve Forbes said about almost the moral benefit of capitalism is the definition of simply the ability to serve the needs and the wants of other people. That just resonated with me. I hope it resonates with you.

As I close this podcast, it is my hope that this and all of our podcasts serve you and the people that you care about most.

I am Patti Brennan. I am so grateful that you tuned in the today's show. If you want to learn more about conferences and the things that I'm learning, just head over to our website. There is so much more content that we can share with you. That's at keyfinancialinc.com.

Feel free to schedule a call with me as well as anyone on this amazing team that I have. Also, be sure to hit the subscribe button if you like today's episode. Turn on notifications so you don't miss a single episode.

Please leave your comments on the show. I'd love to hear from you. Tell me what you liked, what you didn't like, and what you want to hear more about. Until next time. I am Patti Brennan. I will see you in the next episode.