

The Patti Brennan Show: Ep 164

Michael: Good morning, everybody. My name is Michael Brennan. I come to you live from the Key Financial Studio here in West Chester, Pennsylvania. Welcome to the Patti Brennan Show. Whether you're looking to buy Christmas presents for your children or looking to buy a new jet for yourself, this show is for those who want to protect, grow, and use their assets to live their very best lives. Gosh. That sounds good, Patti. Welcome to the show, Patti.

Patti: Michael, I love your intro.

Michael: I love it because that pretty much runs the gamut, doesn't it?

Michael: Thank you for joining...I guess it's kind of odd for me to say joining your show but thank you for joining my show here today.

Patti: Well, thank you for being willing to be the guest host because this show is about the conference circuit, right?

Michael: Yes.

Patti: You know what? I've been to a lot of conferences, so I figured, "Okay, maybe I'll share what I learned."

Michael: Frankly, you have been running. I miss you. I haven't seen you as much recently. I'm used to day in day out, getting to interact with you, but you know what? You are presented with these opportunities to go and further the knowledge of yourself, your team, the firm, which ultimately will be to benefit of our clients, of our listeners, of anybody that's tuned in to all things Key Financial.

Patti: It's amazing. It's so much fun because I get to leverage myself in a way. It's crazy, Michael, that I'm invited to these things and that I'm on these stages. What a privilege it is to be able to get this information, bring it back here, share it with 30 of my closest colleagues, and then let them share it with our clients! We apply the information that we are learning. That's the whole point.

Michael: Not all of us have this incredible opportunity to hear this type of unfiltered, unbiased, and untweaked information. Sometimes the raw data can be tweaked ever so slightly into a certain headline that may align with specific news outlet's philosophy.

Would you be willing to share some of the insights that you were able to gain while rubbing elbows with a lot of, frankly, famous people in this industry?

Patti: Absolutely. I feel like that's my job and to really bring information back without those biases because we hear it all. It's not my job to filter it. It's just to share it and let people filter for themselves.

Michael: Let me ask you, Patti, would you like to go geographically here or go by topic because there's some topics that we could hit on, or we could just go east to west because you have been all over the country?

Patti: You know what? It's interesting, Michael, because every conference that I've been to so far (and I've got two more before the end of the year), the themes rhymed a lot. AdvisorHub was in New York City, and New York City was cool because it was convenient for some of the rich and famous to attend.

Then we were in Vegas. It's good to go to these locations and really understand what people are thinking. I will tell you that the themes were very similar to a lot of the conferences.

Michael: We're any of the themes surprising at all?

Patti: That's a good question. I would say not really, but maybe a little bit. For example, artificial intelligence, the election, the market hitting all-time highs...those were topics that I would have expected. What I didn't expect was the number of people that were talking about alternative investments.

I'll share what I learned and what we're talking about it. The thing that I was most surprised at was the discussion about how large the advice gap is in America today. In other words, there's a lot of information. What so many people shared was that money really doesn't solve problems, but good advice can.

Michael: Wow.

Patti: I have got to tell you, Michael, for you being young, there is no better time to be in the advice industry because it's really needed. Unbiased, unfiltered advice that's geared to the human that we are in front of. That was cool. That was probably the biggest surprise, how much people were focused on the need to improve business models.

Michael: I apologize. Let me interject there, Patti. It sounds like there's almost a problem. Is that what you're saying, is this advice gap one large problem? How would we define the problem before we get to an answer?

Patti: That is the problem. The issue has been historical, everybody was focused on answers without really understanding what the problems are. In my prior life, prescription before diagnosis was considered malpractice. The same thing applies to people's money. I think that it is beginning to be understood that so many people are talking about their products, their investments, and their insurance solutions. They're not really asking the questions in a way that people feel listened to so that they can feel listened to. I think that that's really been missing, but you know what? It's kind of what we've been doing all along.

Michael: Is it possible that a robot or any type of artificial intelligence could assist in solving this problem?

Patti: That is a great segue because that was the big solution. Now, again, this is an industry that's just wants the quick fix. I'm not saying that artificial intelligence isn't exciting, because as you know, I'm looking into it big time. It's data and we have 30 years of data.

Patti: The thing that's cool is we have 30 years' worth of data, whether it be just from our client notes, the portfolios, the financial plan, the tax returns, and the legal documents. It's amazing. Artificial intelligence can make us better at what we do.

I think that no matter what happens, the biggest and best firms out there, like us, are going to be digital hybrids. We use a lot of technology and it's a way of harnessing the information in a way that's easier to digest so that opportunities and issues bubble up automatically.

Michael: Wow.

Patti: I think that artificial intelligence is going to be great in the future. There always must be a human being to interpret it and to make sure that it's somewhat accurate.

Michael: Of course. At the end of the day, I think back to a meeting that we had last week, and in the meeting the clients started to cry. That doesn't happen if you're not present.

It makes me think about learning psychology in college. There's a famous study where they took baby monkeys, and they placed them on a metal mother that held them versus fully furred, monkeys don't have feathers. They measured what the response was and how it felt like to be nurtured by metal or a robot. Sort of mother monkey, and the results were fascinating.

Patti: Michael, think about what you did yesterday for 30 people in the planning lab. Folks, for those of you who are listening or watching, we have something called the planning lab where we all get together as a team. It's 20 minutes, 30 minutes, and it's really zeroed in on a particular topic. It could be about Monte Carlo or correlation coefficients. Just one topic, a deep dive, and 20 minutes in and out. Yesterday, you did a planning lab on how to ask questions, and that was fascinating. It really studied the impact of one question versus another on the brain.

Michael: On the brain.

Patti: The activity of the brain.

Michael: Yes.

Patti: So, that it was scientifically based, and it was just cool.

Michael: Thank you.

Patti: That is the difference maker, because it's about relationships.

Michael: It is.

Patti: And understanding. That circle back is the issue that the industry has had and continues to have, in my opinion.

Michael: Artificial is great. Wonderful. Why aren't we using it now? Or are we? Am I just unaware?

Patti: It's interesting because what I learned in these meetings was that people assume that 70% of our work is already being done by AI, and it is not. AI is scary and on the other hand, it's powerful. It's machine learning, however; the unintended consequences are who's protecting people's identity? What are they doing with clients' data, our data? What could happen from there? Machines have it and this is all about machine learning. It's a compounding thing. What goes on from there? I just want to be very thoughtful about it.

We are not using it. I will tell you that the one thing we might start doing is basically having it on a computer for meetings so that notes can be taken. Instead of having two or three people at every meeting, it makes us that much more productive.

Michael: Wow. Honestly, Patti, I wasn't sure what way you were going to go with that because I could also see it being useful for things like portfolio management and tracking cash flow. I know we have the full-blown staff of CFAs, and these guys are incredible. They can work at any hedge fund in the world that they want to. Instead, they're here working with Key Financial, managing the assets of our clients.

Patti: I want to be a fast follower on this thing because it sounds great, but boy, we must be careful. Before we act on the information, we really understand the problem that we're trying to solve and make sure it's the right solution. We need to stress test the whole thing.

Michael: Oh, wow. I didn't expect that to be the answer, Patti. I honestly didn't expect note taking to be the first place that we are using artificial intelligence. Frankly, I would have thought or assumed maybe somewhere in the portfolio department, tax efficiency, so on and so forth. I did not see that coming.

Patti: You know what? To me, that's a problem. That's something I'd like to solve because we usually have at least two people, sometimes three people involved in every meeting. Those meetings can be an hour, hour and a half, then the people are typing notes and putting them in our systems.

The advantage of AI is that you don't need people. They can be doing other things, serving our clients, number one. Number two, the way that these programs are written, they're in a black box, so I don't have as much cybersecurity and identity risk that I think about, which is to me, a big, big risk. It's in our own little ecosystem so that we can use it, and it's searchable.

We get the notes within 10 minutes, and there's action items at the end of every note. Now, sure, we're going to have to read them, review them, edit them where needed because, again, I just think that human element's going to be important.

I've already seen examples of how these things can work, and they need a human being and their eyes to review and make sure that they're accurate and captured everything.

Can you imagine that if we apply that to the portfolio management and the tax planning? Oh, my goodness. For example, we reviewed a system that was AI, that was a phenomenon, sounded great on the outside, then we decided to really get it.

Beyond getting a demo, we worked with it for a month, and the calculations were wrong. We could have been recommending Roth conversions without taking into consideration the implication on somebody's Social Security and their Medicare premiums.

They can just take you so far and it's got to be done on a personal level. Some people's Medicare premiums are not going to be affected. Other people are. What we want to do is optimize for each family. End of discussion.

Michael: There are certainly some landmines out there that still exist. The deep fakes, all that stuff, is frankly downright scary.

Patti: Oh, Michael, I must tell you, it scares me. For example, you and I can do this podcast today. Now, this is on the World Wide Web. They can take our voices, our images, and create a deep fake so that they can call somebody pretending to be me. It sounds exactly like me with exactly my tone and emphasis.

Even with the video, people won't know the difference. This is why we're going to do things carefully anytime we talk to a client. Sure, we'll ask security questions, but the security questions are going to be different, such as, "Gee, what did you talk about with Patti and Michael in the last meeting?"

Something that nobody knows, and you can't see it. You're not going to find something like that on Facebook. One of the things that we've been doing with our clients is coaching our clients and saying, "For your security questions, we're going to ask you where you went to high school.

" Why don't you give us a random answer like blue or dog? Something that has nothing to do with the question, but you know what the answer is, and we know what your answer is, and nobody's going to guess that."

Michael: Or in my case and I'm not giving anything away here, don't worry. I know the team in here is probably like, "Oh God. What is he going to say? He's about to give away his social security or his home passcode."

In my case, what I've actually done is, for example, "What street did you grow up on?" "Michael Jordan." "Who is your first childhood pet?" "Scottie Pippen." "Who was your favorite middle school teacher?" "Dennis Rodman." I'm saying all Chicago Bulls players.

Patti: Very good. It's easier for you to remember, but nobody else is going to.

Michael: You happen to know this, but I did not grow up on Michael Jordan Drive. I know when the security question pops up that asks me where I grow up? What street did I grow up on?

Patti: Let me play devil's advocate. Artificial intelligence would notice a pattern so with that third question, the pattern might be, guessing Dennis Rodman." Be careful about that stuff, that's how AI works.

Michael: Wow. Maybe I'll switch it up to some Phillies player.

Patti: Let's go back to conferences.

Patti: They talked about the election. I'm not going to steal your thunder. Your two podcasts on the elections were fantastic.

Michael: Yeah, they were.

Patti: Guys, if you haven't listened to those, listen to them. They were fun, entertaining as only Michael Brennan can be, and they were insightful. It's what everybody else was saying. I think it was Rich Bernstein, a famous guy who said, "Hey, when you look at Obama's record versus Trump's record, guess what?

" The rate of return was the same, 16.3 % per year." The President really doesn't influence markets and even the economy. What does, is Congress. If we get a sweep in Congress, that could have a major impact. That's the thing to be wary of.

Michael: I recall with the last election; the blue wave was one of the things that we wanted to be wary of.

Patti: Right. Exactly. Everybody was hedging.

Michael: Hedging in what way?

Patti: They talk about, "Oh, if Trump gets elected, blah, blah, blah, but Harris could get elected in..." They were going back and forth.

Michael: Like verbally hedging?

Patti: Yeah. Nobody knows. It's always close, probably not this close. The fact that we have an electoral college just changes the game altogether. I found that when we talk about tax law, there is this preconceived notion. An assumption that if Democrats win, if Harris wins, that tax rates are going to skyrocket. That could happen, but then we were reminded that Obama in 2012, signed a permanent extension of the tax cuts, so never say that.

Michael: Permanent?

Patti: Permanent, yeah, because then they had the sunset provision back then as we do today, and that's what everybody's concerned about.

Michael: Yes. Of course. Let's not forget that even just yesterday, they announced that, not COLA, but that the actual tax brackets were going to be increased.

Patti: Exactly. I think it was 2.8%, which is built into the law. I think that's fine. No matter what, we should conclude that deficits are going to continue to rise. Our government debt is an issue.

Michael: True.

Patti: Probably not an issue short term, but intermediate and long term could be an issue. The other side of it is there is no other nation in the world that comes close to America in terms of the wealth and the productivity gains that we've had even in the last five years.

We can be negative Nancie's all day long. That would get lots of headlines and people would want to hear more, but never say never. It's a pretty good place to have your money.

Michael: Couldn't agree more, and certainly I feel that the overall economy has been growing at a two and a half to three percent rate. It's pretty darn good.

Patti: Exactly. Because of where we are in the economy, it's probably not going to get worse because the Federal Reserve seems to be on this path of lowering interest rates. Who knows what's going to happen? They dropped by half a point. I find it interesting.

Let's get into investments for a second. The bond market, the 10-year treasury has gone up to 4.2 % even though they lowered rates by half a percent, so go figure. There seems to be a little bit of a difference of opinion in terms of where we are with inflation, and time will tell.

We're a service-based economy, and services really are interesting because when you go back 30, 40 years, there's only been two quarters when interest rates are higher, people are worried about a recession.

There's only been two quarters where the services sector went negative. It was during the financial crisis and the pandemic. Services tend not to go through recessionary periods. Housing right now is sticky. The cost of housing continues to increase, and that's hard for the Federal Reserve to affect.

Michael: At times, when thinking about the economy and the broad markets, I can't help but think about the famous movie with Brad Pitt about Benjamin Button. It feels like the economy has a bit of a Benjamin Button thing going on here where we were in the late stage of a cycle and the next thing in your traditional business cycle is we go into that recession area.

It feels like we are going backwards here. We're going back to the mid-stage cycle, which is fascinating.

Patti: It's unusual too. People talk about hard landing, soft landing, and snow landings. I think that your observation is a very accurate assessment of what is happening.

Things are getting better, not worse and that's why I believe the market is responding and doing as well as it is this year. Keep in mind, the other topic was all about valuations. The fact that it's way, way high.

Michael: Of course.

Patti: Multiples are very high. The one thing that was interesting, and this was a common theme at all the conferences, is that multiples are high. The market is expensive, but if we take out Mag Seven, the seven companies that seem to be going nuts (which are beginning to go down a little bit), the market isn't really that overvalued.

It's fairly valued, and there are pockets that are really discounted. Again, I think it was Bernstein who brought out two companies. He said, "Everybody's talking about Nvidia." He said, "What about a company called Ball Bearings." I think it's called Ball Bearings or something.

Michael: Ball Bearings, historically, are everything that needs ball bearings. Back in World War II, we were trying to figure out where to hit Germany, where it would hurt the most. Would it be to hit the bridges? Would it be to bomb the water centers? Where would be the most effective place to place a bomb? They concluded that the ball bearing factory was it, and it was it because everything needs ball bearings.

Patti: Wow.

Michael: Talk about cars, guns, everything that we use uses some type of ball bearings.

Patti: It's so interesting because that's exactly what Rich brought up. He said there's a mid-cap company and small cap companies, all they do is make ball bearings. Guess what? Their performance is better than Nvidia, and nobody has any idea, and nobody cares."

Michael: It may not be the sexiest, but it works.

Patti: There's lots of values out there where I think the indices tend to kind of hide the value. Is everything a value, by the way? No. For example, 40 % of small companies don't make any money. You must be careful there, there are some companies that are making money hand over fist and their stocks don't reflect that.

Michael: Let me ask you a question, Patti. Would it ever make sense just to buy the 493 stocks?

Patti: Michael, that's a great question. Our friends at First Trust came in and it was an amazing meeting. I can't believe that they came all the way here. They showed us a graph of other periods in our history where so much of the performance came from just a few companies, what happened going forward, and the 10 years going forward.

If you just picked those 493 companies in this example, and theirs, I think it was the bottom 90%. The performance, even though the market itself plummeted and in some cases, went down 30, 40, almost 50 %... those companies equally weighted double-digit return. It was a 10%, 12% rate of return per year, defying what was happening overall.

Again, we're not here to give advice, but maybe here's a lot of junk in those 493 companies. That's the only caveat that I would add. Value is something that I think is a powerful concept.

The clothes you and I are wearing today, we paid for these clothes for a reason. We were willing to give up our dollars to have the clothes because we felt that there was more value in the clothing. That is important to keep in mind when it comes to investing. That's what you want.

Michael: Thank you for that, Patti.

Patti: You look handsome.

Michael: Thank you. That's what I was looking for, so thank you for picking up on that.

Patti: I got it.

Michael: You nailed it.

Patti: US versus international, again, never say never. In the third quarter letter, I've been sending that letter to clients every 90 days.

Michael: For 35 years now.

Patti: I sent my quarterly letter. It was all about the China stimulus and the fact that their market that has underperformed by 8,000 basis points and that is a lot over the last 10 years. Here we were all afraid, many people were concerned about China overtaking the US economy, and they probably will eventually, but not anytime soon.

They're trying to figure things out because they're having major problems. Here we are back in the United States, and how do we feel about international investing? Again, if we want values, surely, those markets are undervalued relative to the US.

However, we're comfortable being here, and the best companies are profiting from being overseas, being in those markets. I think that the key here is to stay on what it is that people want to hear. What can we expect going forward? Is it more of the same? We have to look around corners. Let's talk about that.

Michael: Right. I'd be curious to hear if there were any "experts" there talking about Russia, China, any unholy alliances going on?

Patti: Yes. John Bolton was there.

Michael: Wow.

Patti: He was fascinating. He is concerned about all of that going on. The Russia, China alliance, and North Korea and Iran, they seem to be teaming up against the US.

I will tell you that I think that China is really watching our approach to, not only Ukraine, but the Israel conflict in Gaza. If we step aside and turn a blind eye, I think China is going to see that as a signal and go into Taiwan, or at least that's what a lot of people believe.

We must be careful. Because if that happens, then goodbye Taiwan semiconductor and the chips that we all rely on.

Michael: Just to make sure that I heard you correctly, when you say China going into Taiwan, you mean going to Taiwan and setting up factories?

Patti: Yes, and taking over. Basically, that's a major shipping lane. China basically owns it, but they've always allowed the goods to come in and out. At any time, they can say, "We're done with that." That would impact our economy in a big way because we're not quite ready yet with the factories currently being built.

Between that and then suddenly could this be, "Once they're in Taiwan, does that mean they're going to go into the Philippines? Once they're in the Philippines, then they're going to go into Japan?"

This bipolar world of the US and Russia, and the concern...does it become a tripolar world where Russia and China then have more power over the US? That's what John Bolton was concerned about. Who knows? I think it's one of those things where it's certainly nothing we can invest in.

I'm not going to change what we do because of something that none of us have any control over. I think that's probably the most important thing, reading the headlines from a practical perspective, what are we going to do about it?

Michael: Control your controllables.

Patti: Exactly right. Those controllables are at home. It's cash flow. How much tax do you pay? What rate of return do you need to earn to make sure you never run out of money? How much risk is it? What is your risk capacity?

Tolerance is one thing, but as we all know, I don't think risk tolerance can be measured. You don't really know until you're in it, but risk capacity can. Let's do the work, run the numbers, and understand.

Michael: Incredible. Thank you for that, Patti.

Patti: You got it. Getting back to what was the biggest surprise was how much focus there was on the advice gap. How few people really have either the technology or the willingness to invest in people and technology internally. The long-term vision is to really create this service model that is there to provide true advice that is customized and personalized.

I will tell you, and this is a sidebar, but I was asked to interview Jenny Johnson. Jenny Johnson is unbelievable, Michael, I can't believe that I was asked to interview this lady. She's the CEO of a \$1.6 trillion company.

Michael: Wow.

Patti: Trillion! I will tell you she's on the board of Stanford and she's on the board of The New York Stock Exchange. She was in Singapore. She was just on her way to a three-week trip going to Saudi Arabia to talk to that guy about what his policies are and what he's doing over there to his own people. She was so interesting.

Patti: She had a lot of insights into artificial intelligence because her company is deep in the research and has a lot of the same concerns that you and I have talked about today. The thing that was validating for me up on the stage in front of thousands of people who were watching and listening is this is a big deal.

This is a big shot and to be honest with you, she was so much fun. I went to dinner with her, and she was a great lady. What I was impressed with was based on all her travels and all the research, she said, "Nothing's going to be able to replace the human touch." We must remember the importance of human touch.

Michael: Wow. That is beautiful. Would it be okay if just for one second, Patti, I took a quick step backwards and asked you about this advice gap? Is this advice gap you're referring to specifically in the financial industry or does it flow to every other industry?

Are we talking about the advice gap between Joe who runs the mechanic shop up the street from us not having a successor who can do the things that need to be done to a car at a reasonable price? What do you mean by this advice gap?

Patti: It's a good question, Michael, because I think it was really geared towards our industry. However, now that you bring it up, there's a big gap between places. Think about medicine and these poor doctors who must be typing while they're asking you the questions, come on. Where's that human? They didn't go into medicine to do that.

I had my car at the dealership. It was incredible how much money they were charging me. I had somebody else who knew me, and they were doing it for a third of the price. Who's looking out for people? That's where the gap is, and it could be seen in other industries as well.

All I know is we're going to do it here in West Chester for our clients. We've got a firm team. I think of you and so many of our colleagues here, you're all part of the firm team.

What a privilege it is for me to share insights that I learn at these conferences with all of you so that to accelerate your learning. It's so cool to watch as you grow, and we incorporate these things. I am agnostic. I'm going to learn about this stuff and will adopt it carefully, thoughtfully, as it benefits our clients. End of discussion.

Michael: Giddy up, ladies and gentlemen. Thank you so much.

Patti: Now you know the real Patti. Giddy up is right.

Michael: Yes.

Patti: Thank you, Michael.

Michael: Thank you so much, Patti. Thank you for sharing that, the insights that you have learned over the past couple weeks of traveling, and thank you for doing that for, not just our firm, not just for me, but for the clients, for the friends, the family, the loved ones.

Patti: You got it. Absolutely. It's what I was meant to do, I suppose, and what a privilege it is. Like I said, I can't believe that I'm asked to do these things. I get these advisors to watch designation. I don't know what people are watching.

Michael: Oh, stop it. You're incredible. We all know you're incredible.

Michael: Thank you, Patti, and thank you very much to all the listeners that have tuned in today. This was fun, it was great. I hope that you've enjoyed it and maybe picked up a thing or two.

If you'd like to learn more about any of this or have any questions at all, please visit our website, www.keyfinancialinc.com, or better yet, you know what? Shoot me an email. My email address is Michael@keyfinancialinc.com. I would love nothing more than a subscriber of the podcast to send me an email. It would be fantastic to connect.

Patti: That would be great, Michael. And what a wonderful way to end it. We're here for you. Send us an email if you have any questions or want to talk to us.

Michael: Take care, everybody.