The 12% Unicorn

Scott A. T.: Broadcasting from one Dallas Tower, welcome to the Financial Rock star Show. I'm your host, Scott Allan Turner, ready to help you get out of debt, save more money, and retire early. In the studio with me is producer Katie, dragging herself into the studio toady. On the show, I'll be answering your questions about money, business, and life. You have you'd like answered on the show, please visit goaskscott.com.

Everyday I have to repeat myself, to the ... What in the world? Somebody hit the wrong button, this is not a red alert moment. What was I saying? Everyday I have to repeat myself to the twin toddlers, over and over and over. "More milk." "What do you say?" "Pick me up, pick me up." "What do you say?" "Hold my hand, hold my hand." "What do you say?" "Broccoli, broccoli?" I know your kids don't say that, mine do because they see daddy eating broccoli, that's the only reason they eat it. "What do you say?" Over and over, a dozen times a day, teaching them to say please, and thank you. I have yet to repeat myself on the show, on some of these larger topics, with the exception of the enter music which stinks, which I've mentioned many times. Over and over again, investing this, investing this, stock market, why does it matter? I can't even pay my bills. The lifetime lessons are important, they're the building blocks of prosperity. Just like teaching please, over and over. Thank you, sharing, caring, saving. My kids will have these manner, and values, which will serve them well in life.

They can't see it yet though, because they're only two. You might not see the value yet, but you will. Which brings us to our question, that is going to kick us off today. Jason asks if market returns include inflation, average stock market returns. You guys, I've been reading that the average return rate is ten to twelve percent, over the last eighty years. I found out that is probably very high estimate, for nowadays. For a period back in the eighties, it was super high, which brings that average up, when you look at the last eighty years. If you look at the last twenty years, it's closer to seven to eight percent. My question is, when you go out and look up investment calculators, and read all this stuff online, most of them take in the two point seven-five percent inflation rate out of that already. When you say ten to twelve percent, is that before the inflation rate is taken out. I understand that everybody probably reports it different, but if their return rate for the last twenty years is seven to eight percent, is that before inflation? When I hear someone say eight percent return, is it really ten percent minus the inflation rate, or is that not taking inflation into account? There is somewhat different information out there, I don't know what they are saying.

Jason, there are lies, damn lies, and statistics. Fact, and fiction. Myths, like the Loch Ness Monster, and truths, like the alien spaceships at area 51. Lets begin with market returns, why do we even need a benchmark to look at? That's a good place to start, so that's what we're going to go with. We need some type of yardstick, to compare against. If I'm looking at the back of a box of Fruit Loops, it shows me the nutritional information, based on a two thousand calorie a day diet. That is for the average person, the average adult. What percent of sodium am I getting? Potassium, fat, fiber? I have to have something to compare against, or I could be on the all sugar diet, which would be awesome, but not so healthy. In the stock market, we use our old friend, the S&P 500 index. The Standard and Poor's 500 index. In general terms, the five hundred biggest companies in the United States. Not exactly right, but it's what we're going to use for the sake of discussion. It's the ruler. Is it the perfect ruler? No. That is a topic for another day. Today, let's just look at the most popular ruler used, and clarify what the length of the yardstick is.

Our yardstick, or if you're one of my international listeners, a meter stick. Is there even a meter stick? I don't know, but a yard stick is a yard long. Some people would have you believe it's a yard and a half, or a half a yard. A two thousand calorie a day diet yardstick, for nutrition panels, is two thousand calories. It's not twenty-one hundred calories, it's not nineteen hundred calories, the back of the box says that, two thousand. I'm going to read you a quote now, from a very popular personal finance book, and then we're going to break it down. "I recommend good growth stock type mutual funds in this book, as a long term investment, and dare the state that you should make twelve percent on your money over time. The supporting data for that bold statement, can be found by looking at the historical average for the S&P 500 index. Widely regarded as the best single gauge, of the US equities market, the S&P 500 is an index of the five hundred largest companies in leading industries of the US economy. The S&P 500 has averaged eleven point six, seven percent, per year, for the last eighty plus years as of this writing." That writing was updated in the year 2009, so a little bit ago. I'll get back to the eleven point six percent quoted there, in a minute, so let's sit tight.

Where does the truth come from, when it comes to market returns? Is it nine percent, ten percent, eleven percent, twelve percent, less, or more? Who should you trust, with all that information out there? Who do two hundred and eighty plus schools, conferring PhD's, MBA's, undergraduate degrees in math, statistics, accounting, finance, economics, and other related disciplines trust? Outside of the United States, who do one hundred and ninety leading institutions, in thirty-five different countries trust? In the government, who do researches in the regulatory agencies, like the Federal Reserve Banks, other government entities, trust when they're looking at historical data? Who do leading asset management firms, hedge funds, mutual funds, insurance, pension funds, endowments trust? They've got to have accurate data, right? That's a lot of people, they've got to have accurate data. I'll give you a hint, it's not from anybody on the TV, anybody on the radio, any best selling author, or any blogger out there, it is for an organization called The Center for Research and Security Prices, CRSP. Four hundred and seventy leading institutions, in thirty-five different countries, get their data from this place. They're located in Chicago. Their data pretty much matches what the S&P 500 index reports.

Organizations use our license this data from the CRSP, so that they're all using the same benchmark, when they're writing whatever they happen to be doing. Why is it important? The people who write academic papers, the people research this stuff, they don't do it to make money. They do it to be rock stars in the academic community, to get the Nobel Prize, to get the award. So that when they walk into the room, people say, "Oh my goodness, it's so and so, who discovered black holes are really purple", or whatever. Their material is peer reviewed. If they get it wrong, in the academic community, they get torched. They're out. Then they walk into the room it's, "Oh that guy who", of that girl, "Who said this was true, and they were way off." You don't believe me, go Google the following company, it's called Theranos. Recently in the news, a Silicon Valley darling. It's a biotech company that was valued at nine billion dollars, with a B. One billion dollars in venture capital, those were the people who invested in it, they are now being investigated by the security and exchange control. They're company was all hype, they had no peer reviews of their claims, and they're following the way of cold fusion, if you've ever heard about that.

I know their infamous scam, that you may or not be familiar with. Theranos is a fun story to read about. The founder was a mid twenty year old lady, billionaire on paper, and now she might be banned from the entire industry, by the FDA for making false claims. That's how important peer reviews are, in health, and in finance. Theranos didn't have any peer reviews, they just made a bunch of bold claims, and now they're in the toilet, for the most part. 1936 to 2015, according to the CRSP, market returns are 10.5 percent, not twelve percent. 10.5 percent, not twelve percent. Last ten years, as you mentioned, a little lower, seven and a half percent. Last five years through, 2011, 2015, twelve percent, twelve point zero. What about the eighty years, up until 2009, when that book I was quoting was written? The 11.6 percent that the book was quoting, is that accurate? Well from 1929 to 2009, eighty years, quoting the CRSP was 9.1 percent. What makes me so sure it's 9.1 percent? I got the data in front of me, from the CRSP, and the S&P, I'm looking at it, in a book. It's from the source. It's the source. The source provided me with the information.

The book I quoted from, the 11.6 percent, I have no idea where that number comes from, there's no reference to it. There's an anonymous quote, from a certified financial planner, says "In my humble opinion, using twelve percent as a project future rate of return is nuts. I couldn't site twelve percent because I'm regulated, the SCC, the CFP board, and the National Association of Personal Financial Planners, NAPFA, wouldn't look kindly on me if I said that." Inflation, that's averaged 2.9 percent from 1926 to 2014. When you hear average annual returns, market returns, ten percent, no, they don't include inflation. Inflation adjusted, the market is 10.9 percent, the last five years, 5.4 percent the last ten years, 6.7 percent the last eighty years. Where do those number come from? Same place, academia, peer reviews, PhD's, economists, people who aren't trying to sell you stuff. If anyone can show me any University study, or any prospectus, those are those documents describing investments, where the S&P 500 market return is 11.6 percent, I will eat a bowl of Blue Buffalo cat food. Which I've tried, it's not too bad, it taste like barley. Good to know if there's a zombie apocalypse, and you're raiding Petsmart, go for the Blue Buffalo first.

Here's your final task, open any prospectus, any mutual fund, and index fund, that's the document that tells you about what's in it. Any of them, they always compare the investment to the S&P 500, one year, five year, ten year, and lifetime. You'll see that in the document. I've got one in front of me right now, from one of these commission based mutual funds that are sold. What does it say of the lifetime S&P 500? It has 10.78 percent, not 11.6 percent, not 12 percent. It's right there, plain as day. You can check these online for yourself as well. Some of you might be thinking, "Too many numbers, too many numbers. You're just throwing around a bunch of numbers there. What's the difference of one percent?" One percent over a period of ten, twenty, thirty years, adds up to tens and hundreds of thousands of dollars, of your money. It's significant. We need to lay an accurate foundation, from what we're going to build on, in future discussions about investing.

Got one of the mail packs, which include all the different advertisements from local services. Always giving me something to talk about on the show. We're going to be discussing, again, home monitoring services, because this is one of those things you look at and think, "Oh this is a good option for me, if i don't have a home monitoring service." This particular company, they are a installer, and reseller of one of the national brands, for home monitoring. What have we got going on here? Thirty bucks a month, we can get monitoring for ... The big thing that jumps out is it says, "Free home security system", right at the top. Eight hundred and fifty dollar value. That sounds like a good deal, but then we've got a ninety-nine dollar installation charge, you've got to sign a thirty-six month contract as well. If you don't get good service, you're stuck with that contract. Then on on the back, this is very small, I've got to get this piece of paper way up into my face to actually see it. Fifteen seniors free with a pre-wired home, six free for homes with no pre-wired. If you have an older home, that's not pre-wired, you're going to end up paying more.

What about the cost? Thirty-six months is one thousand eighty dollars in monitoring, plus the ninety-nine dollar set up fee. Then also in the mice type on the back, it said something about a thirty-seven dollars a month charge, so I don't quite understand that. On one side it's got twenty-eight, on the other side it's got thirty-seven. At the thirty-seven dollar price point, fourteen hundred dollars over the thirty six month, plus the ninety-nine dollars. What about Simply Safe, which I've talked about on the show before. Simplisafe, my system was five hundred bucks I think. I'm sorry, for thirty-six months of monitoring with Simplisafe, which is fifteen bucks a month, comes out to about five hundred bucks, or half as much. You do have to buy the system yourself, which varies depending on how many things you want monitored in your house. It's so low, it cost less than this option. If you don't like it, you can cancel it. If you don't like it, you can return the system within thirty-six days, whatever they give you. Easy to set up, I use it on the lake house. I don't get paid by Simple Safe, I just think it's a good service, and it's a cheaper service.

What I wanted to point out with this ad, and a lot of these flyers that you get in your mail, is they're not always a good deal. The only good deals are the coupons you get from the restaurants, then you can go out and try someplace new. If you get a free appetizer, fifteen percent off your bill, twenty percent off your bill, specials on happy hour, those are good deals. Generally the home services, may or may not be, you've got to do your research. Just because it says "Free", or some made up number for value, doesn't mean it's a good deal for you. Back to your questions.

Latifah writes,

Latifah: "My mom is sixty-three years old, but is twenty five thousand dollars in debt from a car loan, bank loan, credit cards, student loans, and taxes. Some of the student loans are mine, from when she helped me pay for school, and the bulk of her income goes towards paying down some real estate. She has no savings, and no investments. It's my intention to find a job, and help her start paying off debt. However I've been searching for about seven months, and the rejection letters are piling up. She lost all her savings when trying to support my dad, who's business and health was failing. He fell into debt, and she had to cover most of it when he passed away. She'll be receiving about seven thousand dollars after she won a work dispute case. My main question is, how should she spend the seven thousand dollars? Should she use it towards the debt, should she invest it, or something else? What would be the best use of the money? My hope is for us to pay off the debt, and for her to retire, but that will take another two or more years, the way things are going."

Scott A. T.: First of all, I'm very sorry for your loss in that situation that you and mom find yourselves in. That's a difficult one. Many parents today, even as early as their mid forties, they're finding not only are they not done paying down their own student loans, they're having to work to pay the loans of their kids, because they can't find work in the economy. You got a few pieces to this puzzle, you've got the debt your mom has on her own, the debt she took on for you, and where you're going to apply this seven thousand dollars. Let's talk about you first, because your mom is in this retirement spectrum, as a son or daughter, I would take on the responsibility of paying back those loans for her, as you're trying to do. Maybe you can't do it right now, but over the next one to two years. This is where parents and grandparents, they're getting into trouble. This is a lesson for other listeners, because they co sign on loans, of any kind. Could be a car, a school, a child's business opportunity, and something happens where they are stuck with the bill. It's not great for either of you right now.

When you do find employment, you're able to help her out, that's going to accelerate her savings for retirement sooner. You're young enough, you're going to be able to recover from this, you've got another twenty, thirty years to go after those student loans get paid off. I would use the seven thousand dollars to pay down a debt, if it were me, and here's why. The debts are cosign your mom money in interest. Also, I can tell by your email, that this is weighing you guys down. You need to get back to zero, as soon as you can. Right now, you're in the hole. Plus you can kind of think of it as free money, it fell out of the sky. Not really, but it's as if you never had it, so put it to the best use you can. A lot of people have both savings, and debts. The savings make them feel secure, while the interest on the debts continue to pile up, and eat away their income each month. It's diminishing the amount of savings they actually have. They don't see that, because they don't track it, but that's what's happening. That's why it's more important to pay down the debts. Make sure you don't have to pay any taxes on that money though, you want to make sure you set some aside for that.

If you have been out of work for seven months, waiting for you full time career, you just gotta make sure you're making the most of your idol time while you're out there. Find a temp job, you'll get the debt paid down faster. Whatever it takes. Don't forget about joining networking groups, going to meetups, people in your field. Jobs come from networking, they're not going to come from the newspaper. If it takes you guys two years, hey it's better than five years, it's better than seven years. Two years is not really that long to get all this stuff knocked out. Keep in mind you have a bunch of domino lined up, first you'll knock down one, the car loan. Then the next, the bank loan. Then the next, the credit cards. Not necessarily in that order, but the point is, you're going to building momentum over the next twelve to twenty-four months. You're going to be building a lot of momentum really quick, as soon as you apply that settlement to those debts, that's going to wipe out a third of them, right off the bat. A quarter to a third of them. You'll have a big sigh of relief, you'll be happy for a moment, and then you'll get to work on the next one. Thanks for the question Latifah.

Quick break, back in a few seconds. You're listening to Scott Allan Turner. Hey nation, Scott Allan Turner here, for those of you that are my long time listeners, you know I'm not one of those guys on the radio, that promotes every product that shows up on their desk. You're never going to hear me trying to get you to buy supplements to make your skin look better, or recommending you pay for commission broker services, designed to leave you broker. I have a name to you, my wonderful listeners. If I were, to recommend something to you, I would tell you about, "Ahhhh", that my friends is the smell of money burning. Just one of the fine scents your old factory system can enjoy from Kim Corten and Candle Company. Dozens of great scents to burn your nose, and your wallet or purse, such as mint julep, gold spice, purple is a fruit, and pepperoni paparazzi. Don't just be seen, be smelled. Available at over priced stores, everywhere.

Jason wants to spend ten thousand dollars for a pilot's license. Should he do it? If you hear some,

Jason: "Toot toot" going on in the background, the kids are nearby in the office, watching something on YouTube, about the alphabet with some train. Not Tommy the train, or whoever it is, but I can hear it going on through my headphones. Jason writes, "I know this is a question that I know the financial smart thing to do for, but I wanted to ask you about it anyway, and get your take on it. For years now, I have dreamed of getting my pilot's license, and it will cost about ten thousand dollars to do so. What ends up happening with the kids in house, is all the money gets spent on raising them. It's very hard to justify taking ten thousand dollars out for myself. We got rid of the new car, and could the car payment, which was four hundred dollars a month. We also have seven thousand dollars in our emergency fund. It's short of the six month total I need, of nineteen thousand dollars. We're working on that. I have thirty-three grand in an employee stock purchase program, from the last company, that I haven't sold yet. Waiting to get the long term capital gains rate on that, right now it's in short term. However, they have lost half their value in recent months."

"We both my wife and I, are forty-six years of age, we have about a hundred and twenty thousand dollars saved for retirement, in IRA's. That includes the thirty-three from the stock purchase program, and we have about a hundred and ten thousand dollars of equity in our home. We're looking to downsize in the next year, and try to pay that off in the next ten years. I was thinking of moving that money over to something else for investment, but I'm also thinking about, this is an opportunity to some of that money, and get my pilot's license with it. What are thoughts on not investing ten thousand dollars, and doing something like that instead? The financial smart thing to do for almost everyone, is to rent a one bedroom apartment, near transportation, and never ever go out to eat, and never have kids. Save until age sixty-five, and then start living. Nobody does that, because it's a sucky way to live. That's sucks, you have to have a healthy balance. It is a lot harder to travel the world at age seventy-five, then if you're thirty-five, or forty-five. I know, because I've been on some of these European tours with people that are in their sixties and seventies. They don't get to enjoy the bike rides around Italy. They don't get to enjoy the hiking in Swiss Alps. You have to live a little, occasionally.

Scott A. T.: Let's be clear though, this is your dream, and it's going to happen Jason. It's a matter of when, when is it going to happen? You need to do this, even though it's a want, you don't want to have this regret on your deathbed, of never having learned to fly. Waiting twenty years to earn your wings, doesn't sound too appealing to me. Probably not to you either. First things first, you gotta get that emergency fund up to six months, that is priority number one. Making big purchases now, without that safety net, just not a good idea. Especially if you're flying, because if an alien ship comes down, and takes you out while you're flying around in the air, best to make sure your wife has some cash to get by on for a while. I would really make sure that you're going to stick with this hobby, and it's not a fleeting thing. I speak from experience on this. Maybe you go out, and pay three hundred dollars for a weekend ride with somebody, to have them take you up in a smaller airplane at your local airport. A lot of places to do that.

Just make sure it's not some passing fancy. I've had a ton of hobbies that I got into, found out I was just a dabbler, then I quit a couple of years later. I've wasted a lot of money over the years, on things that I thought I was passionate about, didn't end up being passionate about it. That may or may not be you, but you need to figure that out first, because this is a big investment. There's an opportunity cost that's going to play into this. What are you going to give up? Ten thousand the stock market, for twenty years, that's going to come out to around seventy grand. Are you going to get seventy grand of fun out of this hobby, over the next twenty years? Is there something you might want to do instead or ten thousand dollars? Or seventy thousand dollars. Maybe, maybe not, you just got to give that some thought. Then you've also got to consider the ongoing cost. From a boat owner's perspective, I lose money every year by owning a boat. I have the cost to keep it up, the cost to run it, and the cost to own it. With a plane you're probably going to renting one periodically, to take up, beaus you've got to keep your skills up to date. Not forget how to fly a plane.

You're going to have those ongoing yearly costs, so it's not just a pilot's license, there's going to be ongoing costs each year, associated with this hobby. For you, I found an article on, "How to reduce your flight training cost." Which I'll pass along to you, it will also be in the show notes. Looks like you can get a sports license for about half as much, five grand. That'd be a stepping stone in the interim, you get the best of both worlds. Something else to consider, maybe you want to ear mark five thousand dollars out of your investments, for this hobby, as seed money. Then you set a savings goal that you're going to save up the remaining five thousand dollars, over a period of time. Then you might get creative, because you're going to have to work harder, and think more, to get to this goal faster. It's going to be more satisfying, because it took longer to get there, and you worked at it.

Just cashing out ten grand of your retirement, when I think of that, it's almost just like swiping a credit card, it's so easy to do. Bottom line, you gotta ask yourself, "What do I want? What is my priority?" Spending money, not a bad thing. It's not a bad thing, as it it aligns with your values, your priorities, your saving, and your not getting into debt for it. Which you are, you are saving, and you're not getting into debt for it. Thanks for the question Jason.

Steve needs to transfer his German wife's money, to the United States. He says,

Steve: "I would like to thank you for what you're doing, it has made a big difference in my life." My pleasure Steve. "Here's my question, my wife Laura and I got married this past July. She is a German citizen, so we did a fiance visa. She had money still in a German bank account, fifty thousand dollars." Steve's marrying wealthy, nice move. "Now that her address is in the United States, she's paying fees, and I think we had to pay fees as well, when we filed taxes. Do you have any advice on how to, or when to turn her money unto dollars from the Euro, or who should we talk to about this?" From a currency exchange standpoint, there's really no best time to wait to do it. Prices fluctuate daily, you never know when the dollar will be worth more, in relation to the Euro. That's just a constant guessing game. There are cycles when the dollar is much weaker, and there are, though I don't recall, when the dollar is stronger. Right now it's ninety cents, for every Euro. I remember being in Europe a few years ago, it was actually many years ago, it was fifty cents for every Euro. Much more expensive to go to Europe.

Scott A. T.: It's pure speculation, trying to get the best conversion rate. You're going to want to shop around, and I'll include some links in the show notes, as to where you can shop. Shop around, because the most important factor when doing these conversions from foreign currency, to the dollar, is the total cost. The sum that you guys had, is so large, fifty thousand dollars. The total cost of any international currency transfer is going to depend on four things, transfer fee charged by the bank, or who the service is doing the transfer. The amount of money you're transferring, which is again a large amount for you guys. How long the transfer takes, if you do it, "I want my money in fifteen seconds", it's going to cost a lot more than, "I want my money next week." That's what's going to be a difference. The different currencies that are involved, you're doing Euro versus dollar, in the exchange rate, at the time of transfer to do that. You got to look beyond just the fees, because the fees are only a portion of it. If the exchange rate is high, but the fee is low, verses you have your higher fee, and the lower exchange rate, you can pay hundreds or thousands of dollars more in cost.

You also want to pay attention if there are different cost tiers. For example one rate to five thousand, another rate up to twenty five thousand, another rate up to fifty thousand dollars. You need to look at the total cost that it's going to be. It could be cheaper to do one big transfer, one time, compared to ten transfers over a period of time. Now where are you going to shop? For a large international exchange, probably the best rates are going to come from foreign exchange companies, called Forex for short. Not Forex trading, that's different. This is Forex banking. If you Google Forex, the trading companies are probably going to pop up, but I've got links, so don't worry about that. The Forex Company, they make money on the currency exchange rate, and they have no, or low fees. Two companies that you're going to want to check out are, World First is one, and High FX is the other one. TD Bank is also another option, that's the bank branch of TD AmeriTrade Brokerage. That's another big company that's involved with this, they're also worth checking out. You want to look at all three of them, to see what the rates are going to be on that transfer.

For a whim you might even check out Paypal, but the percentage that they are going to charge you, is probably going to be large. There's really no reason to wait, I'd get in touch with all three of those companies, say, "Here's my situation, what are you going to do?" SHouldn't be any tax implications on that, but don't quote me on that. Those companies will be able to better answer that for you. You're just transferring money from my country to the next, shouldn't be that big of a deal. Thanks Steve for the question.

In 2004, as a sixteen year old junior at Osborn High School, in Cobb county, Ian Miller and three accomplices made a terrible decision to rob a local CVS pharmacy. Got arrested for armed robbery, and was sentenced to ten years in prison. Sitting in a cell with a lot of solitude, and time to think, Miller decided that a youthful stupid decision was not going to define his life. While in prison he earned his GED, after being moved to a transitional center, qualified for a neighborhood program, got trained up, and graduated with an OSHA certification for job construction. Week later, he's not working at the new Atlanta Falcon stadium. His journey caught the attention of Coca-Cola, and the Atlanta Falcons, and he became the face of the partnership. From his lowest points, to the top of the world, it has already been an amazing journey for Miller, and is far from over. He's already taken a job with a second construction company, as a carpenter, and has his sights set on learning about the engineering side of the business. Thought that was an inspiring story. Guy was in jail for ten years, for armed robbery, decided, "Nope, that's not going to define the rest of my life." I hope that inspires you to look at your situation, and say, "You know what? That's not going to define the rest of my life either." Those are the words.

That's it for this episode, I'm your host Scott Allan Turner. Rock Star Katie is my producer, all the links mentioned in the show, are available in the show notes on ScottAllanTurner.com. You have a question you would like answered on a show, visit goaskscott.com. Thank you for listening.

Announcer: Okay nation, for your free copy of the guide, "How to save one thousand dollars, in one week", simply subscribe to the podcast right now on iTunes, and text the word saving, to the number three-three-four, four-four, to prove that you did it. Subscribe now to get out out debt, save more money, and retire early. See you next time.