

Motley Fool's *Rule Your Retirement* Newsletter

Different Kinds of Stupid

Robert Brokamp, CFP

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Morgan Housel from the Collaborative Fund is back to share lessons you can learn from all the different kinds of stupid in the world.

Alison Southwick: This is *Motley Fool Answers*. I'm Alison Southwick and I'm joined, as always, by Robert Brokamp, personal finance expert here at The Motley Fool. I never get tired of saying that.

Robert Brokamp: Hello, everybody.

Southwick: We didn't talk about this sooner, but congratulations on 15 years of *Rule Your Retirement*.

Brokamp: Oh, thank you. Yeah. Thank you very much. Fifteen years.

Southwick: That's all you've got to say?

Brokamp: That's more than 10. So I actually did calculate how many articles have been published in the 15 years of *Rule Your Retirement*. I haven't written all of these, but articles, special reports, podcasts, and all that stuff. Over 2,000 and I wrote most of them, so a lot of work.

Southwick: For better or worse.

Brokamp: [Laughs] I know. It's a lot of Robert Brokamp.

Southwick: In today's episode, Morgan Housel from the Collaborative Fund is back to help us learn from all the different kinds of stupid in the world. All that and more on this week's episode of *Motley Fool Answers*.

Southwick: So Bro, what's up?

Brokamp: Well, this just in from the Department of Something Everyone Knows: College is just getting more expensive.

Southwick: I thought we were stopping that. I thought we were doing something about that.

Brokamp: Yes, but here's the next question. Is it still worth it? And that is the question that was addressed on the "Liberty Street Economics" blog which is a blog of the New York Federal Reserve. Who knew that the Federal Reserve had its own blog?

Southwick: OK.

Brokamp: Anyway, there was a series of articles written by Jaison Abel and Richard Dietz. One article does talk about how college is, indeed, getting expensive so here's one stat from that article. Tuition for a bachelor's degree has more than tripled, on an inflation-adjusted basis, from an average of about \$5,000 a year in the 1970s to around \$18,000 today. It has gone up and on an inflation-adjusted basis, as well. No question about it.

Then their question as to whether it's still worth it.

The basic answer is most likely yes. These days someone with a college degree earns, on average, \$78,000 a year. Someone who doesn't have a college degree earns, on average, \$45,000 a year. Definitely college grads are earning more, but that's just one side of it.

The other side is what about the cost of it? They looked at the cost of it, but also the opportunity cost, so they factored in the difference between someone going to college and not earning money versus someone who just goes straight into the workforce and earns money for that four or five years.

They figured out that a return on the investment of going to college over the next 40 years (which is generally the length of a career) and the answer is it's a pretty good investment. In the 1980s, the return on a college investment was about 8-9%. And then it accelerated to 16% going

up to the dot-com bust. Since the Great Recession, it actually has dropped to about 14% due mostly to the fact that it's getting more expensive. The input on the equation is just going higher. But still, a 14% return on your investment is pretty good.

That said, it doesn't work that way for everybody. Assuming you went to college for four years, the return drops significantly if it takes you more than four years to graduate. And for 25% of people with a college degree, they earn the same or less than someone who didn't get that degree. So, it depends, a little bit, on what kind of job you get when you get out of college.

There are plenty of people here, at The Motley Fool, who do not have college degrees and they're doing perfectly fine and certainly the return on investment for them by just going straight into the workforce has been good. It didn't work out that way for everybody.

And then, of course, the people who are the worst off are the people who go to college, pay for the degree, but don't actually end up graduating. That's a really bad situation, so certainly before you start that process, you want to make sure that you're actually going to graduate and then have a pretty good idea of what kind of job you're going to get afterwards to evaluate whether it's worth it.

Southwick: Do they talk about particular majors and which ones paid off the most?

Brokamp: They didn't.

Southwick: We can all make guesses, though.

Brokamp: Yes, we can all make guesses. There's another thing I learned related to a previous episode we had with AARP as a guest talking about how people are working longer. The people who are working the longest are the people with the most education. People with a master's degree or higher -- the percentage of those folks 65 and older who are still working is 31%. If you just have a bachelor's degree, 25%. Just a high school graduate, 15%.

Why is that happening? They don't really know. It could be that the better education you have, the more likely you are to have a job where it's not physically taxing. It's more intellectually stimulating. You're more willing to stay in that job. But there is a correlation to getting a good education and being able to stay in the workforce longer, which is great for your net worth and your retirement security.

Southwick: Do you have one more thing for me, Bro?

Brokamp: Oh, I do. I do.

Southwick: At least one more?

Brokamp: I do. Guess who just performed, here, in the Washington DC area? The Rolling Stones!

Southwick: Oh!

Brokamp: They're still touring. But the funny part about this -- and this comes from a CNBC article written by Lorie Konish -- is the tour has one sponsor and it's the Alliance for Lifetime Income, which is basically an organization of financial services firms who try to help people enhance their retirement security often through annuities. They have a bus that goes along with the tour. They play music. Give out tickets. They want you to come in there and use this retirement planning tool to figure out whether you're on track.

It's kind of brilliant when you think about it, because the age group of people who attend a Rolling Stones concert is like 45 to 70. And these are the people who need to be looking at their retirement security. I think it's hilarious that they're doing it.

I am a little nervous about [the annuities]. We're hearing more and more about annuities these days. You and I have talked about them and I think they can make sense in some instances. We talked previously about the SECURE Act, which passed the House and is going to make it easier to put annuities in 401(k)s. That makes me a little nervous. Regardless, I do think a lifetime immediate income annuity can be a good alternative for the bonds, or so, that you would have had otherwise in retirement.

I just think it's hilarious the Rolling Stones [has that sponsor] and I admire the Rolling Stones. Do you know how old Mick Jagger is now?

Southwick: No.

Brokamp: Seventy-five. He just had heart surgery, but if you look at his Twitter feed, there's videos of him dancing. Videos of him playing his guitar. The dude has still got it.

Southwick: He still rocks.

Brokamp: He still rocks, so good for them.

Southwick: What's your favor Rolling Stones song?

Brokamp: "Sympathy for the Devil."

Southwick: Rick?

Rick Engdahl: "Paint it Black," maybe?

Southwick: "Rocks Off."

Brokamp: I'm not sure I'm familiar with that one.

Southwick: Oh, it's good. Like you cannot hear that song and not be like, "I'm going to walk down this sidewalk *hard* and just nod my head at people." It's a good song. I highly recommend it.

Brokamp: Well, with that final tip, that's what's up.

Southwick: As Jeff Bezos once said, "The older I get the more I realize how many kinds of smart there are. There are a lot of kinds of smart. There are a lot of kinds of stupid, too."

And so joining us today in-studio is Morgan Housel with the Collaborative Fund. A few weeks back you were here to talk about

different kinds of smart and now we're going to cover different ways of being stupid that you, too, can avoid.

Morgan Housel: Maybe.

Southwick: I don't know.

Housel: Maybe not. Some people can't avoid it.

Southwick: Well, let's try.

Housel: OK.

Southwick: Acknowledging them is the first step to avoiding them. So the first one is *intelligence creep* -- not knowing the boundaries of what you're good at and assuming talent in one area signals skill in all others.

Housel: There's actually studies on this that single out doctors -- that doctors tend to make very poor investors.

Southwick: I was going to say that.

Housel: I think it's hard to actually pinpoint the cause of this. What makes a lot of sense is that doctors who are very smart in one field -- they're very talented -- by becoming doctors they have great standardized test scores, they're very intelligent, and they assume that that intelligence should transfer over to their investing abilities. They tend to take much more risk with their investing. They have much more confidence or overconfidence...

Southwick: Overconfidence...

Housel: ...with their investing ability and that leads to poor returns. It's one of these things that's so hard for people to wrap their heads around because people who fall for this bias are very smart and very successful. It's hard to tell them, "That doesn't mean that you're also good at something else."

Southwick: It hurts your ego, man.

Housel: A doctor would never assume that because they're a smart doctor they're also a good plumber or a good electrician. That's obvious that the skill shouldn't transfer, but I think for whatever reason [that happens] with investing. "Oh, I'm a smart person, so I understand the economy. I understand how markets work," even though it's a completely different skill.

I think a lot of skills that people are very intelligent about are hard sciences -- medicine, physics, biology -- where there's a right answer for questions. Investing is just so nuanced and it's governed by behavior that's messy and there's an exception to every rule. I think that trips a lot of people up.

I think another category beyond doctors are engineers, because engineers have a precise answer for everything down to the tenth decimal point. In investing that's not how it works. Investing is about the odds of success, room for error, and being OK with being wrong 60% of the time but still doing OK. It's a very different dynamic than what exists in engineering, where there's a precise answer for everything.

Southwick: I also think of doctors as being very comfortable with large amounts of debt at a young age because of student loans.

Housel: Because they have to.

Southwick: And then they also have a lot of money to make mistakes with. They're higher earners, so rather than the trope that doctors are really bad aerospace engineers...

Housel: Right...

Southwick: ...it's, "We get investing."

Housel: Right.

Southwick: The next one.

Housel: Thankfully not building airplanes, though, if they thought they were good aerospace engineers.

Southwick: Number two is underestimating the complexity of how past successes were gained in a way that you makes you overestimate their repeatability. Is this about luck?

Housel: Yes, I could have just written luck...

Southwick: Luck!

Housel: ...but I rambled on for a while. I think it's especially true in investing where during one bull market you do really well and, therefore, you assume, "Hey, here's what I did during this bull market and therefore I'm going to do it again. I'm just going to take what I did last time and do it again." [They don't realize] that markets evolve over time and what works during one period of time might not work during the next period of time.

This is especially true if you just look at something simple like growth versus value investing. You go through these 10 or even 20-year periods where growth investing does really well, which is the past 15 years; but, before that there was a period growth did terribly and value did really well. So unless you're willing to have a flexible mindset and understand that what led to success in one era might not be repeatable in the next, you get these people that get really tripped up and frustrated.

If you go back to 2007, value investing was all the rage and over the previous 10 or 15 years, value investors had smoked everyone else. This is when the Berkshire Hathaway annual meeting started getting really popular, because everyone wanted to do value investing.

And a lot of the value investors, since 2007 over the past 12 years, have returns that are terrible, because value investing has been so difficult over the past 12 years. What's worked has been growth investing: Facebook, Amazon, Google, and whatnot. And a lot of these value investors, if you speak to them, are either in some state of denial or they're just really confused and frustrated that they were so successful before and then at the flip of a switch that success stopped.

Southwick: When I started at The Motley Fool, there were camps...

Housel: Yes.

Southwick: Bill Mann and Joe Magyer were value investors. Throw Mike Olsen on the pile, too. And then there was David Gardner and the other growth investors. I think if you talk to Joe Magyer now, he's going to be like, "I'm no longer this hardcore value guy."

Housel: But see, that's the personality that you want. You want someone who is able to change their mind when it's necessary. The people who were value investors and would never change their minds, or the growth investors who would never change their mind; those are the people who end up having trouble.

Southwick: I wish I could give Joe my money, but he's over in Australia.

Housel: Well, you can move to Australia.

Southwick: Can I?

Housel: Sure. You have my permission.

Southwick: Thank you. The next one. Discounting the views of people who aren't as credentialed as you are, underestimating the special knowledge they have since they've experienced a world you haven't.

Housel: This is especially true, I think, in finance where the upper echelon who get into investment banking and private equity; if you didn't go to an Ivy League school and if you didn't intern at Goldman Sachs, you're not worth speaking to. That's like only a slight exaggeration.

And the flaw in that, of course, is that they just get so insular in their views because they're only talking to people who went to the same schools as them, who were taught by the same bankers at the same bank through the same summer program as them, and they're missing the views of a lot of how the rest of the world works; people who didn't go to [either] Harvard [or] Goldman Sachs.

[They're missing the people who] have experienced a really important part of how the economy works. Whether they're from a different part of the economy. They've experienced different industries. And the views of those people, in aggregate, are far more powerful and more influential

than the views of the tiny, insular group that went to Goldman Sachs and Harvard.

And I think where this is probably most relevant is in politics, where after the 2016 election a big part of the country realized that there's another part of the country that they were never aware of...

Southwick: And they're a little angry...

Housel: ...that thinks very differently about the world than they did. And I think for a lot of voters after 2016 that was a shock, because they had only spoken to people, by and large, who went to the same schools as them. They worked at the same companies as them.

Southwick: And we all agree that's great; therefore, the whole country agrees with us.

Housel: Right, exactly. But I think that also exists in investing, as well.

Southwick: Tom Gardner spoke in front of a group of people at the Fool last week. Leadership Greater Washington is this group that's David involved in -- a leadership group for networking, growing your skills, connecting, and that kind of thing. And Tom's advice to this group of people, who are all accomplished in their own way, is that they need to get a mentor that's younger than them.

Housel: I think that's great.

Southwick: They need to find someone who can explain what the future is...

Housel: What's going on...

Southwick: ...because when you're older you just get so locked down into your world and what you know, you forget that what you know is actually dying out with you.

Housel: One hundred percent. My three-year-old son -- this is no exaggeration -- is more adept at using an iPad than my parents. Not even an exaggeration. And I think when you and I, Alison, are in our sixties it's

going to be the same thing. There's going to be things that 30-year-olds and 20-year-olds understand that we just will not be able to wrap our heads around and, as the world evolves, [we need] to be able to understand the views of someone who's seen a different world than [we have] and has grown up with different values than [we have]. It's really important.

Southwick: What's younger than the millennials? Gen Y or something?

Housel: Gen Z.

Southwick: Gen Z. Thank you. Wouldn't you feel weird going up to someone and saying, "Can you explain how Snapchat works?"

Housel: I've done that at work. We have some Gen Zs at our office...

Southwick: I've done it here.

Housel: ...and I've asked them tech questions.

Southwick: It's embarrassing.

Housel: It is embarrassing.

Southwick: You've just got to suck it up, I guess. The next one?

Housel: Can you tell me how the Google works?

Southwick: What is the Google? The next one. Not understanding that in the classroom the game is you versus the test but, in the real world, it's you versus coworkers, employees, customers, regulators, etc., all of whom need to be persuaded by more than having the right answer.

Housel: It's like if you're taking a test in school, as long as you calculate the right answer, you win.

Southwick: You don't care how you got there.

Housel: And if you're a jerk and can't communicate with people, it doesn't matter. You calculate the right answer and you're good. But in the

real world, once you start working at companies it's not the case whatsoever. And if you are very talented at your skill (you're a great engineer, you're a great coder, whatever) but you're a jerk, you can't work with people, you can't communicate with people, you can't persuade people, and it's not going to work.

I feel like this happens a lot. Most of us have probably seen someone who was an absolute straight-A student at a great school, just off-the-charts intelligent, and they flounder in their careers because it's a very different skill that you need in the workplace than is testing in school. But so much of our view of what intelligence is, is your grades at school. That doesn't necessarily translate to how well you're going to do in the real world. There's so many other skills that you need to know.

Southwick: There's [a saying] that the confused mind says no. It's the idea that if you want to convince someone of something -- that you have the right answer -- you've got to bring them on the journey, because if you just present them with it and they're at all confused, their first answer is going to be no.

I'd be interested to hear, as you've continued on your career, what one of the things is that you've learned for helping convince people of something. How do you do it? How do you communicate?

Housel: I think for a lot of things it's just your ability to tell a story that people can wrap their heads around. Let's say you're solving an engineering problem and you know the answer. The answer is two plus two equals four. But you can't just give people that equation and expect them to come along with you. You need to tell them a story about how you got there, why it's important, and why this is going to make a difference, and explain it to them in a way that is compelling to them. That is short enough that you're going to capture their attention. You're not just going to ramble on with a 50-page PowerPoint.

I think the power of storytelling is more important than almost any of the other skills that we think about that are taught in school, because a lot of those skills, like math and science, aren't effective unless you can tell a persuasive story around them. That's why I think if there's a skill that should be taught to a greater degree in schools, it's probably storytelling.

When you say that, people probably think like kindergarten. Like telling stories -- what is that? But all these other things that we learn aren't that effective unless you can tell an effective story around them.

And a lot of the best writers of all time are people who in their fields (if they're mathematicians or historians) are not the greatest, but they are very good storytellers, and because of that they went to the top of the heap.

My favorite example is Bill Bryson. He's kind of a pop historian, let's say. Within historian circles, he's not looked upon that highly. If you're a hardcore historian from Harvard or Stanford...

Southwick: I didn't see you in the library.

Housel: ...it's like Bill Bryson is not really a historian, but he's such a good writer and such an amazing storyteller that he's sold millions and millions of books. I think that's a perfect example. Another example is the book, *Sapiens*. The author's name I have a hard time saying; Yuval Noah Harari.

His book *Sapiens* did not break any new ground about biology or evolution. Everything that's written in the book was already known, but he did such an amazing job telling the story that the book sold 8 million copies.

So I think if you are a phenomenal biologist or you're a tenured professor at Harvard studying evolutionary biology, you probably look at that and say, "This guy hasn't discovered anything." But he's the most popular, and the reason is because he's such a good storyteller. Storytelling is one of those things that unless you master that, all the other important skills don't really matter.

Southwick: And the final one -- closed-system thinking -- underestimating the external consequences of your decisions in a hyperconnected world or dismissing how quickly those consequences can backfire on you.

Housel: We were talking earlier that a lot of what goes on in investing is related to politics, particularly the triggers of recessions, bear markets,

and whatnot. You're an investor who says, "I'm not into politics. I'm just an investor. I don't pay attention to politics." I think that's fine -- and it's fine if you're willing to put up with recessions and bear markets, which is a great attitude -- but the fact is that politics plays a big role in investing.

So if you're just looking at investing through the lens of finance, there's all these other forces that have a big impact on it, and if you're ignoring that, then you're probably going to have an experience that is vastly different from what you expect.

Again, you're an engineer and you just think about a problem through engineering. But to succeed at your company you also need to be adept at your company's politics. The internal politics. How to move up. How to persuade people. All these other forces that play a big role even if you get trapped within your own field, ignoring everything else that makes a difference. It's hard to move ahead. It's a special kind of stupid.

Southwick: And then you close your article with Bernie Madoff, who summarized this idea a year before his scheme unraveled.

Housel: Bernie Madoff, about a year before his "hedge fund" fell to the ground did an interview. This is on video. You can look it up on YouTube. This is not verbatim. I don't remember what it was exactly, but it was pretty close to this. He said, "Investors don't understand that you cannot get away with fraud anymore. The SEC is too good at what they do and if you are a fraudster you will get caught."

Southwick: Crazy.

Housel: It's like, "Wow! That's Bernie Madoff saying that." There's so many different takeaways from that. Did he know he was going to get caught? Did he think he was the exception to the rule? There's all these different ways to think about it, but that's a really special form of stupid.

Southwick: Morgan, thank you again for joining us. And listeners, you can get more Morgan at CollaborativeFund.com. He writes for their blog. And you can also follow him on Twitter @MorganHousel.

Housel: Thanks for having me.

Southwick: Come back again.