KEEN ON RETIREMENT

So, “How’s the Market Doing?”

Welcome to Keen on Retirement
With Bill Keen and Steve Sanduski

Steve Sanduski: Hey, everybody, welcome back to Keen on Retirement. I'm your cohost Steve Sanduski and with me as always is Bill Keen and Matt Wilson. Gentleman, how are you guys all doing today?

Bill Keen: We're doing good, Steve. We've got all the kids back from their various locations across the country for summer break and we're having a nice time. We had a barbecue at the house over the weekend and the sweltering heat that came in in early spring gave us the opportunity to have a little bit better weather for our barbecue this last weekend before the heat picks up again, we hear. Was grateful to have everyone together and spend a nice time there, even had mom over as well to the event. How about you?

Steve Sanduski: Yeah, excellent. We're excited here with the 4th of July, go the whole crew here in town and we are going to go on a little sailing trip, just a little sunset sailing trip you in Door County, Wisconsin. Then we're also going to go to the Milwaukee Brewers and Atlanta Braves baseball game at Miller Park here in Milwaukee. Yeah, we got some fun stuff lined up with the whole family.

Matt Wilson: Nice.

Bill Keen: Very nice. The 4th of July falls on a Wednesday this year, is that right?

Matt Wilson: It is. Yeah, it's destroying productivity this coming week.

Bill Keen: Thank you, Matt. You know how we think. I always see the holidays falling on the midweek and you kind of give the week away, Steve.

Steve Sanduski: I thought you gave the whole team the week off.

Bill Keen: Oh, goodness gracious. We might have to edit that part out, Steve.

Steve Sanduski: Yeah.

Matt Wilson: All right. Hey, I know-

Bill Keen: We do have generous policies around those issues.

Matt Wilson: Your sure do.

Steve Sanduski: Yeah, yeah, yeah. I don't think there's anyone better out there to be working for than Bill Keen and Matt Wilson so you guys are running a great organization and have some really wonderful people working for you and wonderful clients. It's a virtuous circle that you have going there, for sure.

Bill Keen: Thank you, Steve. We were kind of joking there but I do appreciate you saying that.

Steve Sanduski: Guys, today we want to talk about something that you've been getting some questions about recently and over time and that is about stock indexes. Oftentimes, we hear about the Dow Jones industrial average or the S&P 500 index. We're going to talk today about what those are, how they're calculated, the kinds of stocks that are in some of those and just some interesting history about those but before we get into that, Bill and Matt, I think we've got some other interesting things here that you want to talk about, too.

Bill Keen: Okay. Steve, at Keen Wealth, we are very, very focused on making sure that folks have a fresh, updated retirement plan in place at all times. Yes, up to retirement it's important to get your ducks in a row and really think clearly about those dates and the things you have to do but even once you're retired, we still want to keep those plans in place. One of the core input points for a good financial plan is life expectancy because we have to know how long we're planning for. Of course, none of us know exactly the dates of death but we can make some reasonable estimates. That's always on the topic of our planning because it truly is one of the five or six inputs can change radically the output of a financial plan.

We make jokes around the firm and in a good portion of the meetings we're in, we always note that you know the stat ... Maybe I should turn this into a quiz for you, Steve and Matt, do men live longer than women or do women live longer than men generally?

Steve Sanduski: Women.

Matt Wilson: Women.

Bill Keen: Oh, this is an easy one.

Steve Sanduski: Yeah.

Matt Wilson: Yeah.

Bill Keen: All right. We all know that men typically pass away sooner than women and there are theories around why that's the case but we don't need to get into that today. Another piece of data came up recently that was brought to me by Carissa, my wife, and she was a little concerned about this and wanted some information about it. Now let's look at it in a little more detail. Do married men live longer than single men or do single men live longer than married men? This is probably pretty common sense, too, I would say. I would say it is.

Steve Sanduski: Yeah, I would say married men live longer than single men.

Matt Wilson: Yeah, that would be my guess.

Bill Keen: Yes, so that is true. That is true and so here's the rub. Women are really excited when they hear they live longer, or at least it seems like they're getting the better end of the stick on it, maybe not always. The piece that Carissa was concerned about is single women live longer than married women, Steve.

Steve Sanduski: Okay.

Matt Wilson: Really? Okay.

Steve Sanduski: They don't have us men nagging them all the time, right?

Bill Keen: We could speculate on some of this but I would say probably so. Just tired of, yes, taking care of us probably and a lot of women today have wonderful careers and they still have to take care of their husbands, right?

Matt Wilson: Yeah.

Bill Keen: I'm sure that there's some research that's been done. I did do some fact checking when she brought that to me because I wanted to make sure it was accurate and most of the studies that saw did agree with that, Steve.

Matt Wilson: Okay.

Steve Sanduski: Yeah, as you said, there's all kinds of interesting studies out there about men, women, life expectancy and marriage, divorce, all those things and how there are sometimes differences between the sexes so it's all fascinating information.

Matt Wilson: I have a piece of anecdotal evidence so there's no study that's been done on this, but a client came in recently and her mother is over 100 years old and we asked her, "Okay, what's your mother's secret?" She said, "It's a shot of vodka every single day."

Bill Keen: Oh.

Matt Wilson: I don't know if any of these studies have maybe factored in anything like that but ...

Bill Keen: Are you able to take the whole week's in one day or is it just one a day?

Matt Wilson: I don't know. It sounds like you need to get a study going.

Bill Keen: No, not me. I'll leave that to someone else.

Steve Sanduski: Yeah, it really does point out some interesting things that we need to consider is that, as you say, women tend to live longer than men and so they're oftentimes the woman is going to end up having to be responsible for the money. If they're not when their husband is alive, they ultimately are going to end up with all the money so it's very important that the woman is also very involved in the financial situation while their husband is alive and be active in it and know what's going on because ultimately, they may end up being fully responsible for taking care of it.

Bill Keen: That's right and we see that happen in practice here quite a lot as things play out with folks over the years. One of the policies at Keen Wealth is we really, really ... I don't know if demand ... Demand's probably not the word but we really suggest that folks have both spouses involved because, one, when we find out ... We sit down and we start thinking about the, I call it the better half, the best half of life, the retired life where you have all your time and freedom and hopefully some wisdom from the journey as well about what to do with that time, freedom and resources, we want to make sure that spouses are on the same page. My goodness, when one passes away, we want the remaining spouse to have the least amount of anxiety and stress around their finances as possible and we certainly don't want them to be in a position to be taken advantage of by some unscrupulous advisor or broker or even a con person.

Also, in that same line of thinking, one of the reasons that folks will seek out and engage a good quality fiduciary advisor, and now I'm speaking of Keen Wealth, I'm speaking of my own experience, is because whichever spouse is not involved in the family money, and usually there's a lead spouse ... IN some cases, Matt, wouldn't you say maybe 20% of the time both spouses are equally engaged? Would you say that maybe?

Matt Wilson: Yeah.

Bill Keen: Maybe 20% of the time but probably 80% of the time, there's a lead spouse that's handling the assets. Then in another percentage of the time, there's someone that's completely checked out of it. They don't want to understand it. They just totally rely on the one spouse to take care of it and a good portion of the time, folks come in to see us because they want to make sure that when they are not around anymore, that their remaining spouse and family is not taken advantage of and they're not stressed out.

Steve Sanduski: Bill, that raises a question here. You said maybe 80% of the time that one person takes the lead, so what are you seeing? Is it the man or the woman that usually takes the lead? Do you have a percentage of who more often takes the lead in the financial management?

Bill Keen: In what we've seen in our firm over the last call it 25 years or so, I would say 95% of the time so far it has been the husband that has taken the lead but I will also tell you there's been 10% of the time where the wife has taken the lead and very, very, very well done as well. We have a client who the woman did pass away, the wife did pass away early and before she passed away, we kind of saw it coming due to an illness. She was very, very particular about instructing us on exactly where everything was and how things were to be done and handled and so that her husband, who really was not involved at all in the finances was going to be okay and we could coach and guide him through, even some of the nuances in the way they personally handled their day to day checking and those kind of things.

Of course, we handled the assets for them. We handled their retirement planning, their money management and coached them up on tax planning and estate planning and those things. Those ducks were in a row when she passed but able to get down in deeper even with some of the day to day activities with him and so that he was able to continue on, again, with the least amount of stress around those issues at least while he's dealing with a very difficult time and the grief around leaving a spouse.

Your question was give you a percentage and that could've been just a one-word answer but I just wanted to kind of lay that out there for you and we've seen how this has played out. You know what, we get to see people recover and we get to see people still go on and have productive lives even after going through one of the hardest things anyone will ever deal with in their life.

Steve Sanduski: Good, yeah. Thanks for adding some of the additional color there, Bill. Yeah. Let's talk about some of the listener questions that came in here. What are you hearing here in the past couple of weeks, Bill and Matt?

Bill Keen: We're getting some questions recently on General Electric having been removed from the Dow. I think that throws out some confusion for folks and I do know that a lot of folks don't understand how these indexes are actually created, calculated, looked at over time and what the actual purpose is of them. One thing we wanted to focus on today was a little bit about GE having been removed from the Dow and that was kind of a big hit or something shocking because I think, and I speak now as a professional in the industry, so I have to step back and think about how I perceived the Dow Jones industrial average or the S&P 500 back before I was involved as a professional in the business because my perception now might be different than someone who's a lay person. I think there's a lot of confusion around what the indexes actually are and what they mean.

Matt Wilson: Yeah, this is interesting because GE, a company that has been in the Dow Jones since the creation of the Dow Jones, now not necessarily throughout all those years because stocks get added and removed from the Dow but GE was a company that was formed in 1892 and it was formed between the merger of Edison General Electric and the Thomas Houston Company.

Bill Keen: Now before you go any farther, we need to quiz Steve on ... It might have been given away by what you just said but I still think this is important and our listeners probably don't know this and Steve might not know this. Steve, do you know who the man was behind this merger, sir?

Steve Sanduski: The man behind the merger, I'm going to guess J P Morgan.

Matt Wilson: Oh.

Bill Keen: It was not. We got him.

Steve Sanduski: Oh, you got me.

Bill Keen: My goodness, Steve, I didn't know you were taking it this seriously here.

Steve Sanduski: I hate to be wrong. You know that.

Bill Keen: Publicly as well, I know.

Steve Sanduski: Yes.

Bill Keen: I know. The merger Matt mentioned between the Edison General Electric Company and the Thomas Houston Company was actually put together by Thomas Edison, Steve.

Steve Sanduski: I would not have guessed that and I didn't.

Bill Keen: Yeah. Yeah. Isn't that interesting? They established a permanent research laboratory in New York in 1900 and that lab has produced a startling number of innovations over the years. An a interesting beginning for a company I think everything would recognize, started by someone that they didn't realize started it. Yeah.

Steve Sanduski: Yeah.

Matt Wilson: GE gets kicked out of the Dow and part of it is, okay, why and what does this mean for GE? The reason they got kicked out was because the board of directors that managed the Dow Jones industrial average who determines what 30 stocks are in the Dow Jones. That's all the Dow Jones is, by the way. That number, the 24,000, 25,000, 26,000, you know how it's been bouncing around here lately. That is a conglomeration of essentially 30 different companies. The day to day movements are really just representative of what's happening in those businesses. The GE itself, it was actually in the Dow for over 100 years and it got removed because the board of directors felt that GE isn't representative of the American economy today. They removed GE and they replaced it with Walgreens.

Bill Keen: Okay, now you're talking about the board of directors for the Dow Jones.

Matt Wilson: For the Dow Jones.

Bill Keen: Yeah, not the GE board of directors.

Matt Wilson: That's right.

Bill Keen: The Dow Jones board of directors.

Matt Wilson: The Dow Jones board of the directors and their reasoning was they felt that Walgreens is more representative of the consumer and healthcare space within our economy today, which makes sense. I don't blame them for that. GE has a lot of different business lines and they are very well known and spread across but that, as a company, have fallen on some tough times here lately. At one point they were the largest company in the world and over the last year, they've lost 150 billion in value from a stock price perspective.

Bill Keen: Beginning in the early 1900s and lasting to the present, GE's manufactured home appliances and stoves, the Hot Point iron, washing machines, air conditioners, radio, television and in fact they won NBC, right? Don't GE own NBC?

Matt Wilson: They do. They do.

Bill Keen: Yeah, 67,000 patents, over 300,000 employees making things like super chargers for cars and airplanes. The list goes on and I know a lot of the work for the military as well so a little shocking, I think, to a normal person who sees them falling out of favor, if you will.

Steve Sanduski: Another question that we get a lot is, hey, I see the Dow Jones went up 100 points or 200 points or 300 points and I'm looking at that and what does that mean? What is driving the price changes on the Dow Jones on a daily basis? The Dow Jones, those 30 stocks, they are weighted based on the price of the stock. What that means is the higher price that a stock has, the more impact on the day to day movements of the Dow that it'll have.

Bill Keen: The relevance to this, right off the bat, is that we have investors and the public watching closely ... For 100 years now, the news press, what did the Dow do? What did the Dow do every day? The question is what is it that we are looking at? What you've just described is a formula for them coming up with some number that the Dow did but no one really understands what it represents other than, yes, there's these 30 companies but now we've already talked about today, that those companies can change. The bad ones or ones that are out of favor get removed and a nice fresh one that more so represents gets added.

Matt Wilson: Here's a fun fact, too, it was the original 12. Didn't even start with 30 stocks.

Bill Keen: 12 represented, okay. A lot of people are very shocked to hear that the Dow, still yet today, are shocked to hear that the Dow is only 30 stocks out of all the stocks that exist.

Matt Wilson: How representative of the US economy are just 30 stocks? Many would argue that probably not a very good representation but it's just what we've used and that's what the media reports on so it is just a barometer and we're able to compare from, okay, what's it today versus what it was last year, five years ago and any time in the past ? I think more importantly is this understanding of how it's calculated and what drives it because a company's stock price, while important, isn't representative of the actual value of the business.

For example, Warren Buffett, who is the chairman and CEO of Berkshire Hathaway, his share price is over $250,000 per share, for one share.

Bill Keen: Right, because he's never split the stock.

Matt Wilson: It's not the most .. That's right. That, you could argue, that's probably the highest price stock there is in the stock market at 250,000 but they're not the most valuable company.

Bill Keen: Right.

Matt Wilson: Company values are determined by the number of shares outstanding times their stock price and that's what we call market cap. That's what determines how big of a company they are and so like right now, the biggest company by market cap is Apple. Their stock price is $180 a share. GE was the lowest priced stock in the Dow when it got removed and the highest priced stock in the Dow is Boeing. Here's the difference in stock price. Boeing is 27 times the influence that GE was on the movement of the Dow.

Bill Keen: Okay. What you're saying now is that simply based on a stock price, not the value of the company but the stock price itself, and we have to be clear about this. If a company splits its stock, a lot of people think that if you had one share of stock and the company splits it, that you just get a free share but no. What happens is, yes, you do get an extra share but they immediately the same day cut your share prices in half so when companies split, you actually have no more capital or no more money in the stock. You just have twice as many shares for half the value per share. It's a wash.

What you're talking about here is we've got an index called the Dow that doesn't account for market cap. It's just looking at share prices and that could be very misleading because one stock, just because it had a higher stock price, it doesn't even have more market cap but it moves, it affects the Dow way more than a stock with a lower stock price. The reason we're talking about this is because there's confusion around it. People are looking at these indexes and comparing it to their portfolios on a daily basis trying to figure out are they in lockstep, are they correlated, are they not.

Then the S&P 500, which we probably should rotate into here in a moment, is actually calculated differently. That would be something I think would be important to share as well. I think it's actually better.

Matt Wilson: Yeah. That's right. The S&P 500 is made up of 500 stocks so right there, yeah, big difference. 30 stocks versus 500 and then the S&P, their board, they determine what stocks are in there based on the market cap. They pick essentially the 500 largest companies inside the US. And then the weighting of those companies will be done by market cap. The higher, in terms of value of the business, the more impact that it has on the S&P 500. There's arguments on whether that's right or wrong, too, but that is definitely more representative of what a business's impact is on the overall economy than it is just based on their stock price like the Dow Jones does it.

Steve Sanduski: What's also interesting about the way the Dow Jones does it with the price weighting is that you will never see Berkshire Hathaway in the Dow Jones ...

Matt Wilson: That's right.

Steve Sanduski: ... because Berkshire stock, like you were saying, it's over $250,000 per share and so the keepers of the Dow Jones index would never put that in there because it would have such an out sized impact on the movement of the Dow Jones average because its stock price would be 1,000 or 2,000 times the price of another stock so it just wouldn't make sense. Even Amazon, same thing. Amazon is roughly $1,600 per share. That will probably never be in the Dow Jones because the price is so high. Google, probably a similar thing.

I guess the point I want to make about that is that that's another reason why the Dow Jones is not necessarily really representative of a broad market and what the broad market is doing because there are certain stocks, like an Amazon which one could say is an important part of our economy, that's excluded simply because of the price of its stock.

Matt Wilson: Yeah. Here's something interesting, Apple is now in the Dow Jones index but it wasn't and the reason was because back ... I think this was 2013, 2014 timeframe, their stock price, they hd not split in a very long time and they were pushing $700 a share and that's too much of an impact to include it in the Dow.

They did a seven-for-one stock split so now everyone had, instead of one share at $700, they had seven shares at $100 each-

Bill Keen: Please remember, no one had any more money at that point. They just had more shares that are worth less.

Matt Wilson: That's right.

Bill Keen: We have to repeat that.

Matt Wilson: They were immediately included in the Dow right after that.

Steve Sanduski: I wonder if there's a little back room deal on that, what do you think?

Matt Wilson: There definitely could be. It is interesting on these dynamics that are driving investor behavior because we see these numbers and we the Dow Jones and we see it go up and down and we're impacted by it emotionally and it went up and it did this and that and there's all these other factors and these all these other assets classes, too. This year, the Dow is ... It's up a couple percent at the time of this recording but it went through a pull back and we're kind of still working through a correction right now. There's other asset classes that are up this year but we just focus on the Dow and it doesn't necessarily paint the whole picture of what someone's investment portfolio is doing.

Bill Keen: It doesn't paint the whole picture because it represents those 30 securities only but then the way it's calculated, not to keep beating on this, the way it's calculated, most folks would have no idea. The movement in the Dow can be driven by one or two securities and the rest of the market could actually be doing something different than those one or two securities and you just wouldn't know it if that's all you were looking at.

Matt Wilson: That's right.

Bill Keen: It almost feels like this is just a tradition to follow the Dow and there's Dow Transports, too. In utilities.

Matt Wilson: There are. Yeah.

Bill Keen: Yeah. There's other sectors that they will follow and even though this is called the Dow Jones industrial average, they do have stocks from all the major sectors except utilities and transportation but still, it's a pretty limited look at the situation.

Matt Wilson: Yeah, it is. The other takeaway from this, too, around GE specifically is just looking at companies historically, the ones that survive and thrive are the ones that are best able to adapt and change to the current economic environments. Lately we've seen tech companies perform very well, have very strong earnings.

Companies like these big conglomerates like GE and some of these other industrial companies, not necessarily as strong just based on some of the businesses they're in and maybe some of these businesses are getting disrupted by some of these tech companies and the ability to adapt and change makes a big difference.

My father, he went to school in Rochester, New York and Rochester, New York was the headquarters for Kodak. We've talked about this on the podcast before, Kodak was and still is a household name, at least I'm familiar with it. My kids have probably never heard of Kodak but Kodak doesn't exist anymore. It was because the ability to adjust to digital cameras and what have you.

Bill Keen: Matt, we talked a little bit earlier about companies that we think just went away and I guess technically they did go away because they're no longer in existence but a lot of these companies don't just go bankrupt, do they? They sell off divisions. In fact, GE announced a division being sold off, I think, here in the last couple days. I think they're kind of in that process as well but, hey, before we move on, you mentioned your father. I just wanted to give a shout out to Roy. Roy, thank you for being a very loyal listener to the program. Steve, Matt's dad Roy listens in to all of our programs and he sends me a nice note every so often and he's also a pilot, too.

Steve Sanduski: Oh, he is?

Bill Keen: Oh yeah. So I thought I would throw that in there, Matt.

Matt Wilson: Nice.

Bill Keen: I appreciate the work Roy did raising Matt, as well, so it's all working out.

Steve Sanduski: Excellent.

Matt Wilson: Another piece on this line, I found a stat here recently, of the Fortune 500 companies that were in existence in 1955 through the end of 2016, only 12% of them are still around. Again, to Bill's point, it doesn't necessarily mean those companies just completely folded and what they did is just nonexistent anymore. A lot of them just got sold off or merged into other companies but it is something to be aware of as we move forward.

Bill Keen: This is why I believe you've got to have a discipline process. You cannot have all your money in one security, no matter what you think about that security or how much you think you know it or you worked there for 30 or 40 years. Any one security can have a fall and that's why a discipline process that looks at technical and fundamental aspects to these companies if you're going to own individual securities is so important because just imagine having life savings in one of these companies and who would've ever thought that GE would be one that would be falling on hard times like this. I think that's a message or a lesson we take from this is to really understand, when you're talking about your life savings especially, you've got to have a process. You've got to have a discipline and you've got to be diversified.

Steve Sanduski: Yeah. Bill, I think that's a good way to wrap up today. Is there anything else that you want to add here before we close?

Bill Keen: I wanted to extend an offer to our listeners, one of the topics that we've been dealing with in our lives, in the firm, on our podcast and in our blogs is the cyber security, the scams that are going on out there, how to protect yourself from those things. We've got a live event coming up on August 11th and we're going to be featuring a retired FBI agent. His name is Jeff Lanza.

Jeff was the head of operations of security for the Kansas City FBI and a graduate of Johnny Reid School of Interviewing and Interrogation. He's a certified FBI instructor and has trained many government agencies and corporate clients on how to handle all these different things that are coming at us right now from the standpoint of keeping ourselves safe and avoiding these problems that are happening. With respect to the things we're all going through and at Keen Wealth, we really try to be a hub to the wheel of all aspects of someone's financial and retirement life and I realize that we may have been able to secure Jeff in person and we were.

We're making an announcement here on, again, August 11th. It'll be the morning. It's a Saturday morning. Anyone listening to this is invited to attend. I simply ask you to shoot me an email at BKeen@KeenWealthAdvisors.com and let me know that you're coming, and I'll connect you with someone here at the firm that can get you registered for that event. There's no cost for that event. We're doing it to add back to the community and provide a format for folks to get some really solid information and Jeff's got a lot of stories, too, that he went through over his career. We're looking forward to that, Steve, and I wanted to put that out there on the podcast today because I think it's a really, really important topic and I'm willing to put resources toward that event to hopefully make a difference here.

Steve Sanduski: Thanks for sharing that, Bill. That sounds like a great event so encourage all the folks listening to attend and, as Bill said, if you want to attend, just send him an email to BKeen@KeenWealthAdvisors.com, that's B as in boy, K-E-E-N at KeenWealthAdvisors.com and as always, you can find this podcast and the show notes at KeenOnRetirement.com. Please tell all your friends that you think could benefit from listening to our show as well. We'd love to get more people listening to our podcast. With that, we're going to wrap for today, guys. Thanks, and we look forward to having you on the next episode.

Bill Keen: Okay. Thanks, Steve. We'll talk to you soon.

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