KEEN ON RETIREMENT

The Truth Behind the Numbers That Could Impact Your Retirement

Welcome to Keen on Retirement
With Bill Keen and Steve Sanduski

Steve Sanduski: Hello, everybody. Welcome back to "Keen on Retirement". I'm your co-host, Steve Sanduski, and joining me today is Bill Keen and Matt Wilson. Gentlemen, how you doing?

Bill Keen: We are good here, Steve. We are just recently back from the annual Barron's Top Advisors Summit in Salt Lake City. We are taking in the information we learned there.

Steve Sanduski: Good. Well, hey, I know this probably isn't on our agenda for today, but since you mentioned that, is there anything that you picked up from the conference that you want to share? Any idea that may have come out of that, that you thought, "Hmm. I like that. That's something that I can use as I work with my clients"?

Matt Wilson: A key theme at the event this year was really focusing on the client experience. It was about execution, which, put simply, is do you do what you say you're going to do? The second piece was making sure that we are making it easy for clients to work with us, through technology and advancements. Then the last one was making sure that we are creating a positive experience. How do we make the clients feel, emotionally?

It doesn't mean that there's always positive solutions and positive outcomes, because we deal with a lot of different factors to clients' lives. As people get older, there's health issues, there's even death in some cases. Those aren't positive experiences, but how can we shepherd along our advice and our council in a positive way.

Bill Keen: That speaks to really having our advisors and ourselves trained to have empathy with folks. Wouldn't you agree? Because, again, like you said, we're going through a lot of things that life throws at us, throws some curve balls at folks, and just being there, listening, being very present, very empathetic ...

Like Matt mentioned, people lose spouses. Folks have to, in some cases, cut back spending. I know that's not as dramatic as losing a spouse, but there are things that we have to advise folks we have to be empathetic.

People hire us to tell them the truth about their situation, and again, it's not just bad things, it's through all things that folks are going through. That technology piece Matt mentioned, I think the last house that I purchased, a number of years ago, I didn't even see a paper contract. I signed everything online. Initial, initial, initial, initial. Sign, sign, sign, by clicking the mouse.

In the financial world, we're not up to that level yet, are we?

Matt Wilson: Not quite.

Bill Keen: There's still a lot of paperwork floating around. We're trying to make it as easy as possible on folks to engage, but there's a little way to go.

You know, Steve, this event, as you know, you've been to the Barron's conferences before, it's truly some of the very top advisors in the world getting together, sharing best practices, comparing notes we try not to miss that event. It's an invite only event. I think that's about the tenth year that we've been to that event.

Steve Sanduski: Yeah, well, it's always good to hear some of the things that you're picking up from that. I know you guys are one of the top firms there and getting that invitation. So happy to have you guys be able to share that.

All right. On today's conversation, we are going to talk about some numbers, but before we get to that, I thought ... I've got three trivia questions for you. I don't think these will be too tough. You may not get the answers correct, but I think we'll have a little fun.

Matt Wilson: Okay.

Bill Keen: All right.

Steve Sanduski: So with that as a setup, first question is, who was the first billionaire in the United States?

Bill Keen: John D. Rockefeller.

Matt Wilson: Yeah, I was going to say Rockefeller.

Steve Sanduski: Well, that's what most people would say, and I think for a long time, the information was that it was John D. Rockefeller, but more recent information says that it was actually Henry Ford.

Matt Wilson: Oh.

Bill Keen: Oh, wow. Okay.

Steve Sanduski: Question number two is, which U.S. bill has the shortest lifespan in circulation? Would it be the 50-dollar bill, the 20, the 10, or the one-dollar bill?

Bill Keen: One.

Matt Wilson: Go with the 20.

Steve Sanduski: You would both be wrong.

Matt Wilson: It would sure seems like the one dollar bill, wouldn't it? You'd think they'd wear out.

Steve Sanduski: Well, according to the internet, which is never wrong, it says it's the 50-dollar bill, which has a lifespan of 3.7 years, so that is very counterintuitive, at least to me.

Matt Wilson: You know, I have a theory for that. When people get a 50-dollar bill, they go save it, so they put it in the bank, so it takes it out of circulation.

Steve Sanduski: Now that could be true. Maybe that's the answer.

Bill Keen: There's Matt's positive thinking on people saving money. Not that many people save money, Matt. That's unfortunate.

Steve Sanduski: Yeah, okay. Well, I'm going to go with that, Matt. That sounds plausible.

Matt Wilson: Yes.

Steve Sanduski: Okay, third question is, how many times would you have to fold a bill before it tears?

Bill Keen: I thought you asked us this about three years ago on one of the episodes.

Steve Sanduski: Check in your memory.

Bill Keen: I think you might have.

Matt Wilson: Before it tears ...

Bill Keen: Something like 100.

Matt Wilson: Yeah, I mean, my head ... An outrageous guess of a thousand popped in my head.

Steve Sanduski: Times four, Matt.

Bill Keen: Times four?

Matt Wilson: 4,000?

Steve Sanduski: 4,000 times.

Matt Wilson: Wow.

Bill Keen: Well, this is some really interesting information, I'm sure, for our listeners, that were plugging in to a financial show, to learn about money.

Steve Sanduski: Money, yeah.

Bill Keen: I guess.

Matt Wilson: One thing I have on my desk ... Most people don't notice it, but I do have a jar full of shredded dollars on my desk. Got it from the Federal Reserve. When they take them out of circulation, they shred them.

Bill Keen: Nice. Another great piece of information.

Steve Sanduski: Let me give you a bonus question. A lot of the listeners here are either nearing retirement or they are in retirement, and some of you are interested in starting a new business, once you retire from your career job, so what is the percentage probability that a new business will still be around five years later?

Matt Wilson: Less than 5%.

Bill Keen: I had 5% in my mind. Since Matt said it, I'm going to say four and go for that "Price is Right" thing.

Steve Sanduski: Well, you guys are both way off.

Matt Wilson: Oh.

Bill Keen: Okay, one.

Steve Sanduski: You're going the wrong direction.

Bill Keen: Okay.

Steve Sanduski: According to the Small Business Administration, 48.2% of new businesses will still be around after five years.

Matt Wilson: Wow.

Bill Keen: Wow, that's promising.

Steve Sanduski: Yeah, guess they're happy. They're getting paid back.

Bill Keen: Yeah, I'm still concerned about, maybe, that data set, because what I've learned over the years is most small businesses do fail, so I'm not sure about that, but I'll go with it, Steve.

Steve Sanduski: Okay. Here's another one from the Small Business Administration. So this is a bonus bonus question. What are the top three reasons why a small business closes?

Matt Wilson: Well, I mean, it seems like some of the obvious ones. Lack of revenue would probably be one of them.

Steve Sanduski: Correct. That's the number one reason. Yep.

Bill Keen: I'm overthinking this, I think.

Matt Wilson: Yeah. Then, I would say ... Then you could go into the marketing and everything else.

Steve Sanduski: Well, that would be low sales. We'll include it in low sales. So number two was, the owner retires.

Matt Wilson: Huh. Okay.

Steve Sanduski: Number three is, they sold the firm. So there you go.

Bill Keen: So two of the three were actually insinuating success of some sort, weren't they?

Matt Wilson: I guess. There was an exit, I guess.

Steve Sanduski: There was an exit, yep.

Matt Wilson: Now this is kind of along the same topics. I saw this on social media. Someone was asking about starting a restaurant and the response was, "You're better off lighting your money on fire than to start a restaurant."

Bill Keen: Well, that wasn't very encouraging. Just go to the restaurant.

Steve Sanduski: Yeah, the difference is starting your money on fire is against the law, isn't it?

Matt Wilson: I guess, yeah.

Steve Sanduski: All right. Well, enough with trivia, guys. Today we want to talk about numbers. We hear numbers in the media all the time, whether it's statistics, whether it's other numbers that the media throws at us to try and grab our attention, or maybe make us think, "Oh, wow, things have never been that bad before," or maybe the reverse, "Things have never been this good before."

What we really want to do is help each of you think about what these numbers mean, how to put numbers in context, and how to understand numbers so that they make sense. So if you hear somebody say, "Oh, debt has never been higher than it is today," well, that may be true on the surface, but when you compare it to something, then it may put it in context, and it may not be nearly as bad, and it may actually be a good thing.

Anyway, just a little bit of a context there. Matt, I know you've got some things along those lines that I know you want to start us off with.

Matt Wilson: The thought about this podcast was around an article that I came across on CNBC back at the end of February. The headline was "Consumer Debt Hits $4 Trillion" and it's the first time it's ever been that high.

Bill Keen: And there was a mountain chart, right, that just looked like major drama, correct?

Matt Wilson: Yeah, so they have a chart. Looks like it goes back to 1965 or so. It looks crazy, the debt, and the different sources of debt, and how much it's grown since that period. I look at that and my first thought is, "Well, this is completely out of context, because all we're doing is talking about one component of the balance sheet."

There's no mention of assets, no mention of income, no mention of growth of the economy, and everything else. It's just, "What's the debt level?"

The other thing that you'll notice if you see this chart, and maybe we'll link to it in the show notes, is that it never has gone down.

And it's because debt is a function of assets, in most cases, so as assets go higher, generally debt goes higher. As economies grow, the numbers get bigger, and the debt levels get bigger, and the asset levels get bigger.

Everything gets larger, so we have to take it a step further, and look at them in ratio analysis. We have to compare it to something. The reason we want to compare it to something is because then we can look at trends over time, and we can then even compare against, specifically, if we're looking at investments, we can compare against other companies within an industry.

When the media talks about these things and they don't give you any context, that's a red flag right there, if you're ever looking at stuff like this.

Bill Keen: They give you the numerator and never a denominator.

Matt Wilson: That's right.

Bill Keen: Trying to look at things with perspective, which we always talk about perspective. We've been talking about it for ... I have for 27 years. We've been talking about it for nearly four years on the podcast and yet, here is another example of incomplete information and data.

Steve Sanduski: So you mentioned this four trillion of consumer debt, but Matt, I'm curious, do we know what the actual net worth of households is? Because I'm kind of curious if this four trillion is a big fraction of the actual net worth of households, or maybe that would help put it in perspective, too.

Matt Wilson: Yeah, this is data that I look at on a pretty consistent basis. Right now, at the end of Q4 2018, total assets held by consumers, is over $124 trillion.

So we have $4 trillion in debt, consumer debt. Now that's not all debt that consumers hold, because you have mortgages, and there's student loans, and there's some other things. Total debt is about $15 trillion.

Consumer debt is mainly credit cards. Unsecured loans is what the bulk of those are. That gives us a net worth of over $106 trillion, so when you net those out.

These articles like that, though, they make you believe that we've been going backwards. The debt is just compounding and growing, exponentially, and consumers are getting farther and farther behind. The reality is, that's not true.

The previous high, before the Financial Crisis in '08, '09, we had net worth of $69 trillion. It's almost doubled net worth since that period.

That doesn't mean that everyone's doing well. Of course, these are averages. Again, with our analysis, averages can be skewed by large numbers and small numbers. We talk about median sometimes as well, which takes out the impact of some of these large numbers, but by and large, consumers are doing very well here in the U.S.

Now, to take this debt a step further is, yes, we have $4 trillion in debt, but what is that, as a percentage of their personal income, of disposable income?

Because that is ... Okay, well, if we have all this debt, is it costing us much to carry it? We are at some of the lowest levels in what we call the debt service ratio that we've been in the United States in the last 40 years.

Bill Keen: We talked about doing this episode really as kind of a conceptual look at these ratios and talking about having to have the denominator in these things when you're looking at top line numbers. We weren't necessarily going to make this a current events economic outlook, but actually, it's pretty rational to think that some of these things Matt's talking about, because he does stay right on top of them, we're able to relate it to exactly what's going on right now, so I think that's helpful today.

Matt Wilson: When we look at it from an investment analyst viewpoint, we look at it from a corporate standpoint. That would be, if we're going to invest in a company, are they able to service their debt?

I like to compare that to the economic side of things, what's happening here in the U.S. economy. Again, the media just wants to throw out one number in a point of time and it doesn't tell us the story.

Liquidity and solvency ratios are very common ratios that we look at when we analyze investments. And it's ability to meet short term and long term obligations.

Maybe that's the same thing the bank's doing when they're underwriting a mortgage. They're determining what's your ability to pay this back, as an individual?

Same thing with a corporation. When they're issuing debt or when people are considering purchasing some of the common stock of that company, it's, "What's the ability for them to maintain a profit, in addition to paying back their liabilities?" Because if those ratios aren't very good, that doesn't look good.

To your point earlier, Steve, about the Small Business Association if you can't beat some of these requirements, you're not going to be in business very long.

Steve Sanduski: Yeah. Well, Matt, I think one of the points you make here, and Bill, you touched on this as well, is, we're not trying to turn the listeners into numbers junkies, but we want our listeners to be consumers, and to be able to understand these numbers, and also understand that you have people like Matt, Bill, the rest of the team at Keen Wealth Advisors, who do dig into the details, and they do understand how to put these numbers in perspective.

They do understand the appropriate ratios to put these numbers in context, and they know what numbers are good, what numbers are bad, and what numbers we don't really have to pay too much attention to. Just a good example here, I think, in this conversation, of letting folks know that you guys are really on top of, and understand, how to put these numbers in context.

Bill Keen: Matt, while we're at it here, I would love to hear either more information about other things that are currently happening with our economy and the markets, or, if you have some of these other ratios ... And again, not to get real overly technical, but I think it's meaningful. We're talking about it. So for folks that are interested, I'd love to hear either the first thing I said or more of these ratios that I know you look at when you're looking at the economy and, to your point, when you're looking at individual security selection as well.

Most of the questions we receive in the firm are about financial planning, about taxes, Medicare, social security, "When can I retire? How much can I spend?" Those types of questions. But we do have a contingent of folks who do want to understand and ask questions about these things, so I think it's meaningful to hit a few of them here in the time we have remaining.

Matt Wilson: It's so much of when we look at investments, but then also with individuals in the financial planning, trend analysis is a big component of it. It's how are we faring over time? It's easy to just get focused on today and what's happening today. Is the market moving higher or lower? Is U.S. debt higher or lower? What's the apocalypse du jour, so to speak.

When we can take a broader view, and we can take these ratios and look at a trend analysis, we're able to identify, yes, what direction are we headed? Because yes, some bad data doesn't necessarily mean the trend has changed significantly.

Some of the things that I think should almost always be quoted in a ratio format is the debt level in the United States. Whenever we talk about debt, we should always compare it to GDP.

Bill Keen: Other than a few recessions here and there, the GDP typically always goes higher.

Matt Wilson: That's right. So what are we comparing it to? So the debt to GDP ratio, at least it allows us to compare it to history, because there's so many quotes about, "We've never been here before." Yes, we've never had $4 trillion in consumer debt before, but we also have never had $126 trillion in asset value either, on the consumer balance sheet.

Steve Sanduski: So, Matt, that ... You're talking here about the debt as a percent of our GDP, so do you happen to have those numbers?

Matt Wilson: On a gross level, we're at about 105% of debt to GDP. Meaning we have more debt in the U.S. than we have GDP. While that might seem surprising, we have been there before. After World War II, it was close to 120%, and then it came down to 70%.

But there's also some thoughts around, well, is there a level at which point that you can't go beyond? I mean, there's some countries in the world that are two- and three-hundred percent GDP.

Bill Keen: I had Japan on my mind. Do you have that number in your head?

Matt Wilson: You know, last numbers I saw, it was over 300% debt to GDP.

Bill Keen: Wow.

Matt Wilson: It doesn't mean that we want to always have this unlimited spending, that there's no consequences to it, but it's hard to say what the consequences are, especially when interest rates are as low as they are as well.

Bill Keen: So tell us why the interest rates being low is relevant to our debt service in the U.S.

Matt Wilson: Well, that's how do we pay for it? Well, you pay for debt via the interest rate that you pay on it, so debt service, as a percentage of GDP, is extremely low.

Bill Keen: So in a general sense, the U.S. government is incented to keep interest rates lower than debt.

Matt Wilson: They are. They're supposed to be independent of the Federal Reserve, which controls short term rates. Not supposed to be subject to the whims of our current administration, and Congress but we do know they're all interconnected.

Forecasts are our interest rates are going to go higher, and that debt levels are going to go higher, and probably faster than GDP. Now these are forecasts, but that's where some of the concern does come into play.

If we don't make some changes, at point are we going to have to stop spending as much? Maybe we don't ever have to, but it's just there's a fear out there that maybe we shouldn't continue to spend as much as we have if our economy isn't growing as fast as it used to. Doesn't mean it's contracting; it's just maybe not growing as fast as it used to.

Bill Keen: Right, and that makes sense.

Matt Wilson: What it boils down to is, are we preventing our standard of living from increasing as fast as it could have by spending more today than we should be? Additional percentages that we look at, too, is around the employment markets, unemployment rates. Those are good to quote in percentages. Typically, the media is very good at that, because it does help us at least compare it to history, but sometimes where you can take those percentages and not dig into the underlying components.

One thing with the labor force that is widely quoted as a potential issue is the labor force participation rate. We had nearly 70% participation before the Financial Crisis in '08. We're now at about 63%. That is an argument that some, what we would say more bearish people, would use to say, "Well, the economy's not doing well because even though we're saying there's all these jobs, they're not very good jobs. There's not that many people participating as there has been in the past."

Well, when you look at the components that make up the participation rate, do you know what the number one reason why the participation rate is lower 10 years hence the Financial Crisis?

Steve Sanduski: It's probably going to be Baby Boomers, like me, retiring.

Matt Wilson: It's it. It's aging. Aging is the number one reason. It's not because the jobs got outsourced.

Bill Keen: When do they take somebody off? Is it 65 years old or do you know?

Matt Wilson: The participation rate looks at folks that are 16 up to 75.

Bill Keen: 75. Okay, yeah.

Matt Wilson: There's a very wide range. We have a lot of people that retire in their 50's and 60's and so they're considered not participating because they're retired.

These things, when taken out of context, can be extremely misleading when they're just quoted in a vacuum.

Bill Keen: Are there any ratios ... We talked about the big picture economy. Are there any ratios you think we could bring to our listeners today that we apply in our portfolio management to specific companies? Because we do get questions about, "Why do we own a certain company over another company and it appears that one has more sales than others," or something on the surface would make it look like one was better than the other, but most of the time, folks aren't digging in to the actual what's underneath. They're not looking at the denominators, which keeps being the theme of our program today.

Matt Wilson: When we analyze businesses for investment, it's almost all ratios that we look at, and it's because we have companies of all different shapes and sizes. Unless you're using a ratio, it's extremely hard to compare one business, that might be small from a public company standpoint, to a very large public company, like Apple.

Apple's a trillion-dollar business, nearly. How do you compare another tech company to that, that might only have $100 million market gap?

We have activity ratios, which looks at how well a firm uses its assets. As we talked about liquidity and solvency ratios, which just indicate what's their ability to make their short term and long-term obligations. Then there's profitability ratios, which helps us identify how well companies are generating operating income and net income. Are they generating more of their income from core operations or are they from other business activities?

Then we can take that all and look at different valuation ratios, and that's how we can compare. They're value of their stock compared to some of their different asset balance sheet components, to determine how are these, compared to each other, within the same industry or how have they trended over time.

Bill Keen: I think a lot of folks that come in and scratch the surface on analysis of securities always have that P.E. ratio in their mind, the price of the security over the earnings per share, but there's a ratio that you like a lot better than just that price to earnings ratio.

Matt Wilson: One that we look at a lot is the earnings yield, so it's a little bit more comprehensive. Price to earnings ratio is pretty simplistic, which is fine. It doesn't mean that it's bad, but it doesn't necessarily tell you very much. Earnings yield ratio is going to look at the earnings that a corporation makes over its total enterprise value, which includes its assets and its debt, so it's how well are they managing their business to generate their earnings.

Companies with high earnings yield are more attractive than companies with lower earnings yields.

Bill Keen: Well, Steve, have we ratio'ed you out today, sir?

Steve Sanduski: I think we're good to go.

Bill Keen: Okay.

Steve Sanduski: Yeah. Yeah, so lots of good numbers here, so Bill, yeah, if you want to take us home here and wrap up.

Bill Keen: I think that it was important for us today to respond to some of the questions that we're receiving in the firm. That's what I just love about our podcast is that we can take things that are coming up throughout the weeks and months in the firm and answer the questions here on our program.

Today, I think, again it was about perspective. Yes, we talked about some of the current state of affairs and we don't want to be just all Pollyanna. We just want to put things in perspective for folks.

But we also talked about some of the analytical thinking around how we look at the broader economy and then also, the individual holdings in our portfolios as well. For those of our listeners out there that had an interest in some of this, I think we've given them some information that they can use and work with. For those that maybe didn't have an interest in it, but maybe they do not, or at least they know what's happening behind the scenes on behalf of them, if they're clients of our firm, or they're investors in general.

Steve Sanduski: All right. Well, thanks for the wrap up there. Bill, Matt, thanks for another great show. We'll have all the details, the show notes, and links at keenonretirement.com, so please be sure to check that out. If you have any questions, you can go to the website, and fill out the little form there, and we'd love to answer one of your questions on a future episode. Thanks, all, for listening, and guys, appreciate it. We'll talk to you soon.

Matt Wilson: All right. Thank you, Steve.

Bill Keen: Thank you, Steve.