KEEN ON
RETIREMENT

Should Investors Build Like Warren Buffett or Grab Some GameStop?

Welcome to Keen on Retirement
With Bill Keen and Steve Sanduski

Steve Sandsuki: Hello, everybody and welcome back to Keen On Retirement. I'm your co-host Steve Sanduski. We have with us today in the studio, Mr. Bill Keen and Mr. Matt Wilson. Hey, gentlemen. How are you today?

Bill Keen: We're doing great this day, Steve. How are you doing?

Steve Sandsuki: I'm doing fantastic. We're here in March and spring is in the air.

Bill Keen: It's getting close. We had a polar vortex. I looked that up when I was going to say that to somebody a polar vortex and I thought the definition said that that was up around the North Pole. When you say that, I want to sound smart like I didn't say the wrong thing but then I saw a weatherman mentioned that the polar vortex came through the Midwest. I guess that was the right terminology but let's just say I'm glad that it's in the 70s today and not negative 15, which is what I saw in my car thermometer just a few weeks ago.

Steve Sandsuki: That's right. Yeah. Weather changes, that's for sure. All right. Well, guys, we've got a couple of topics that we want to touch on today. The first one we want to dig into is Warren Buffett, one of our favorite investors. He released his annual stockholder letter. It's always a nice piece of wisdom that a lot of us anxiously awaits and will be dissecting. We want to pull out a few gems from his letter this year.

Then, the second part of what we want to talk about today is what's happening with GameStop, which is a publicly traded company. There's some crazy things happening there and some other things related to that. We want to touch on that. I think that'll be interesting as well. Let's start with Berkshire Hathaway. Warren Buffett came out with his letter. What are some gems... Matt, what are some things that you pulled out as you were reading that letter?

Matt Wilson: There's a theme around the whole letter. I believe it's around investing for the long-term. We will kind of share some of those points that he talks about in there but I believe the reason that he focused on that was because Berkshire didn't have a particularly good year and especially considering Warren Buffett standards for performance, relatively speaking, I think Berkshire was up 2.4% in 2020.

Steve Sandsuki: Would you care to say, did they have a good year in earnings or are you saying they didn't have a good year in stock price because the stock price, those are disjointed or disconnected?

Matt Wilson: That's right. I think the theme around you holding and investing for the long term is he's got it speaking to his shareholders, like, you stick with me even though I am 90, he did say that, he's 90 and his partner, Charlie Munger is 97, but they do talk about holding on, the S&P 500 was up 18.4%. That's the benchmark he gives himself. That's happened from time to time. I mean, it's not the first time it's happened but, considering the situation that happened with COVID, Berkshire was kind of a stock that did lag that year but he goes right into talking about their earnings and they did earn 42-1/2 billion dollars, which was down from the previous, from 2019.

That was made up 21.9 billion of operating earnings, 4.9 billion in realized capital gains and this, I thought, was the most interesting part, 26.7 billion gain from the increase in the amount of net unrealized capital gains that exist in the stocks we hold.

Steve Sandsuki: Okay now, wait a minute. I need you to explain that, 26.7 billion gain...

Matt Wilson: Yes.

Steve Sandsuki: ... in net unrealized capital gains that exists in the stocks we hold. Is that both companies that they own 100%? Is it just their percentage ownership and companies? How does that work?

Matt Wilson: Yeah, that is the marketable securities. Those are publicly traded stocks that they owe.

Steve Sandsuki: Okay. They would own like maybe 5% of a company and then they account for 5% of the net unrealized appreciation, capital gains of those stocks.

Matt Wilson: Yeah, just of the share price performance share.

Steve Sandsuki: Share price?

Matt Wilson: Because they're marketable securities, those are accounted for differently. That's part of the gap rules. Berkshire is an interesting, their conglomerate that he talks about. Conglomerate is kind of a dirty word because most of them aren't managed very well but they are conglomerate but the big piece of their business or their holding company, Berkshire Hathaway, is owning, picking stocks, which isn't necessarily common among most of the other businesses.

If he didn't have that last year, I mean, his just stock picks that he's owned for as long as he's owned and he's amassed over time with the extra capital that the company generates and he doesn't distribute to his shareholders, made 26, almost $27 billion for his shareholders. That's, so I leave that-

Steve Sandsuki: More than the earnings of the company.

Bill Keen: Right. Net unrealized capital gains, meaning that I would assume his calendar January one to the end of the year, that's what they're up and unrealized means he didn't sell them...

Matt Wilson: That's right.

Bill Keen: ... but he did experience the increase in share price. What about the dividends from all those companies that he owns? Is that included?

Matt Wilson: That shows up too.

Bill Keen: Okay, yeah.

Matt Wilson: That shows up in maybe a different line item and their gap rules, but because dividends get taxed a little bit differently but again, it's all part of the idea that those are kind of separate from all the wholly owned businesses that Berkshire owns. The wholly owned business is all roll up or the majority ownership rolls up into 21.9 billion. The rest is just his stock picks. His stock picks actually did better than the businesses he owns.

Steve Sandsuki: Interesting now.

Matt Wilson: He did say the value of all the marketable securities is 281 billion.

Steve Sandsuki: Billion?

Matt Wilson: That's his stock portfolio, 281 billion. Pretty wild.

Steve Sandsuki: You guys are pretty close to that too in your stock portfolio?

Matt Wilson: Right. Right.

Bill Keen: Boy, that's a long term investment building wealth over time. We say it's very possible.

Steve Sandsuki: Yeah, oh yeah.

Bill Keen: 281 billion is a big number, though.

Steve Sandsuki: Wow. Yeah.

Matt Wilson: Oh, yeah. That is a lot of money and I believe at one piece in his shareholder letter, he has his cost basis. Now, cost basis isn't necessarily the best measure for performance because cost basis change. When you sell something at cost basis, it goes away and you reinvest that money. Instead, the cost basis gets reset when you buy something else but the cost basis of the current 281 billion in stocks is 108 billion.

Bill Keen: Based on your definition, there's a lot of unrealized capital gains there.

Matt Wilson: That's right.

Bill Keen: Do the math on that. Yeah, that's amazing.

Matt Wilson: Yeah. Yeah.

Bill Keen: Tell us about the ownership of Apple, Matt, because I know that we get asked about that with Buffett and so forth a lot. It's a topic of discussion.

Matt Wilson: He actually mentioned it is one of the core components to kind of Berkshire strategy. He mentions four things. Three of them are wholly owned businesses and Apple is the only one that's just a publicly traded company, is really a core piece to them going forward but what he mentions around Apple is the concept of share buybacks. He uses Apple as an example because they purchased Apple over the course of 2016, 2017 and 2018. By the mid-2018, they had owned 5.2% of all the outstanding shares of Apple.

That's how much they had purchased over the previous few years. They paid 36 billion for that. They have enjoyed regular dividends, averaging about $775 million annually. Then, in 2020, they even sold some of Apple. They pocketed $11 billion on that sale.

Well, now, they own 5.4% of Apple because Apple has continuously repurchased its shares, shrinking the number of shares outstanding. Think about that for a second, they purchased 5.2%. They've since sold some of it and now they own 5.4%.

Bill Keen: They've received all those dividends, almost 800 million a year in dividends. Remember, we talked about this in the past, one of the things that we look at is share buybacks in our analysis of securities. It's a perfect example of why that's important. They own more as a percentage of Apple's total outstanding shares now than they did before, after all that Matt just described.

Matt Wilson: Part of that, shareholder friendly business framework that we discuss is dividends, our component that it's like the five things that a company can do with its cash, pay a dividend, buyback shares, pay down debt, reinvest in the business, or go buy other businesses. Those are the five things. Apple pays a dividend and buys back shares.

I mean, again, we're not necessarily promoting Apple particularly, but this is Berkshire's take on share buybacks. He uses this as an example because they're benefiting from it. He's also saying that shareholders of Berkshire are also benefiting from it too, because, again, Berkshire owns 5.4% of Apple stock.

Berkshire also is purchasing back its own shares. He believes they'll continue to do so as long as the share price is reasonable. He does say that. One thing he does say, which I think is pretty funny, is that share buybacks are great, but not at any price. If you think about that, he's basically saying, "Oh, so you should buy, low and sell high?" I mean, it's kind of what he's saying because I won't pay any price for him, even his own shares. He said, "I'm not going to overpay for my own shares of stock," which is kind of funny.

Bill Keen: But last year, he did buy a bunch back because as of you mentioned all the ...

Matt Wilson: He felt that they were undervalued. That's right.

Bill Keen: ... of the program that the stock hadn't done as well. He's seeing maybe some arbitrage opportunity there to put some serious capital work and buying his own shares back ...

Matt Wilson: That's right.

Bill Keen: ... to some extent.

Matt Wilson: That's right. Again, another quote that Warren throws in here, this is again, he's referencing share buybacks and, "As sultry Mae West assured us, too much of a good thing can be...

Bill Keen: Dot, dot, dot.

Matt Wilson: ... wonderful."

Bill Keen: Dot, dot, dot, wonderful.

Matt Wilson: It's like, again, he doesn't say that just share buybacks are the best thing that you should always do no matter what but interesting, his view on that and that's gotten some attention, maybe not as much over the last few years. Prior to that, it was getting more attention. I mean, share buybacks has been kind of a hot topic for some time.

Bill Keen: Well, it was considered illegal. I know we can take it all the way down a different direction now but for a while, share buybacks were considered manipulation.

Matt Wilson: That's right. There was a process that the company had to do via tender offer. They could still do them. There was just a different way to do it versus the way they're able to do it now. Yes. Another thing that he touches on his age. I mentioned he is 90. Charlie is 97. He talks about other really great businesses. There's very good businesses on the coast that probably get a lot of attention.

He said, "There's a lot of really good businesses in the Midwest," and he kind of goes through some examples of one's headquartered in Omaha, where he's got some very good relationships with. He talks about Nebraska Furniture Mart, which many of our local listeners here in the Kansas City area are probably very familiar with Nebraska Furniture Mart. They have one of their stores here in town. They had their best year ever. He said, "Despite being shut down for many weeks because of the pandemic, that Mrs. B, who started the furniture store, worked until she was 103 years old, a premature retirement age, as judged by Charlie and me."

Bill Keen: That speaks to our staying active in retirement, Steve.

Steve Sandsuki: It does.

Matt Wilson: It does.

Steve Sandsuki: I think we did a podcast on that.

Matt Wilson: Yeah. They didn't say anything in this shareholder letter about them stepping down anytime soon. Now, May 1st is when they're going to have their shareholder meeting. That's going to be televised on, I think Yahoo Finance. I'm sure they will get questions. They kind of seem to be getting a lot of questions about that over the last few years.

Warren's been, I think, pretty vocal about investing in America. He talks about just despite probably all the things that are going around, you still, I think he's probably the eternal optimist. This is what he writes, "Today, many people afford similar miracles throughout the world creating a spread of prosperity that benefits all of humanity and its brief 232 years of existence. However, there has been no incubator for unleashing human potential like America. Despite some severe interruptions, our country's economic progress has been breathtaking.

Beyond that we retain our constitutional aspiration of becoming a more perfect union. Progress on that front has been slow, uneven, and even and often discouraging. We have, however, moved forward, and we will continue to do so. Our unwavering conclusion, never bet against America."

Yeah, I always find that, I guess maybe refreshing considering Buffett, he maybe doesn't have the reach that mainstream media has or anything like that, but he does, I think, have a very pretty good view and perspective on things to provide that analysis considering, again, he's 90. He's lived through many market cycles and he hasn't ever once kind of lost his optimism for the future at 90 too, pretty, pretty neat to hear that.

Steve Sandsuki: It's that kind of attitude that leads to 170 billion-ish of long term unrealized capital gains on his books, right?

Matt Wilson: It does. It does. It does. He had partnerships when he first started investing money and he was going to, putting these partnerships together with friends and family members and people he knew.

He talks about one of the groups that his partnership, a bunch of doctors in Omaha, every single one of them still owns their shares or their families do, "There's several doctors in that group that are in their 90s." This is where he mentions, his age at 90 and Charlie Munger at 97. He seems kind of joking, but he kind of says that, "Berkshire ownership foster's longevity as well."

Bill Keen: I need to get some shares then.

Matt Wilson: The Coke and peanut brittle too, he's big fan of that.

Steve Sandsuki: See's candy.

Matt Wilson: See's candy, that's right.

Bill Keen: Garage Steakhouse in Omaha. Well, one of the things that I did see that he said in that letter and it's a wonderful summation that you did there, Matt, for folks, is he said, "Productive assets such as farms and real estate and yes, business ownership," which would mean owning stocks, "Is one way to own businesses, produce wealth and they produce lots of wealth." It says, "Most owners of properties will be rewarded of such investments. All that's required is three things: The passage of time, and inner calm and ample diversification."

Now, I think about those things. I think about the next segment of our program, where we're talking about some of the Reddit forums and the GameStop chaos and I look at those as I measure against those three things: the passage of time, folks are looking to get rich in a day; and inner calm, I'm seeing chaos and anxiety; ample diversification, not seeing much of that in these securities that were seeing get driven all over the place these days.

Steve Sandsuki: What you're saying is if I own GameStop and I own AMC theaters and I own COS Corp, that's not diversification?

Matt Wilson: Meme stocks, yeah.

Bill Keen: The meme stocks.

Matt Wilson: Yeah. I don't think so. Here's the thing, that sentence that you just ended with, with Warren Buffett, "All its core, passage of time and inner calm and ample diversification, again, not diversification. Inner calm, I don't know but I think if the people own those stocks, they're probably refreshing their phones probably 100 times a day

Bill Keen: The GameStop stocks and those things?

Matt Wilson: Yes.

Bill Keen: Oh, they're obsessed.

Matt Wilson: If that's calming to you, I don't know what would be causing you anxiety then because I don't know anyone who's sitting there, watching the market all day, refreshing their screens, that creates calmness.

Bill Keen: Inner calm?

Matt Wilson: Yeah.

Steve Sandsuki: Wait, there might be a uniform-

Matt Wilson: Even if it's going up, it doesn't create calm.

Bill Keen: Yeah.

Matt Wilson: Because then you're saying, "Oh my gosh, when am I supposed to exit before this goes back down."

Steve Sandsuki: Exactly.

Matt Wilson: It creates anxiety and all kinds of things, watching those things refreshing, and we've guarded against it, warned against it for years as long as our program's been out.

Steve Sandsuki: Well, that reminds me refreshing screens, you guys may remember this commercial goes back to probably 1999 back in the .com bubble and it was I think it was a TD Ameritrade commercial, where they show a guy, he's in his office cubicle, they show his screen, and he's day trading and they show a stock chart and the stock chart just goes like straight up. Then, the employee, he's like, "Yes, yes." Then, he walks over to his boss and he says, "I quit." Then, he comes back to his cubicle. He refreshes his screen. Then, the next imprint on the chart is its way down...

Matt Wilson: Oh my God.

Steve Sandsuki: ... and he's like, "What did I do?" Yeah, it reminded me of the day trading that you think you're...

Matt Wilson: Oh yeah.

Steve Sandsuki: ... there and then the next refresh of the screen is like, "Oh, I just lost it all."

Bill Keen: Well, there's another commercial that has the monkeys walk over and they turn the chart, the right side up, which is actually showing it goes straight down.

Matt Wilson: Yeah.

Bill Keen: Got to make sure your charts the right side as well but with these stocks we're seeing where folks are seeing moves that they're just ridiculous moves. They're going from, I don't know, Matt, tell me, $20 to 380 back to 40, back to 400, back to 250, back to and we talk a lot about investing and speculating and they're two very, very different things.

We opened the program talking about Warren Buffett making investments, long term investments and now we're seeing massive speculation with no regard for the fundamentals, in my opinion, of these companies that are getting moved all over the map here.

Matt Wilson: Yeah, and Buffett talks about this in his letter to about owning wonderful businesses. He even kind of mentions, "Well, sometimes you can't own 100% of a wonderful business because the person who owns it, doesn't want to sell it to you." One of his strategies is he wants to purchase an entire business every year. He wants to gobble it up and he didn't do that in 2020. But he says it's also if you own a marginal percentage of a wonderful business, that's okay too where he's talking about owning his publicly-traded stocks.

Well, GameStop and some of these other ones, I don't believe fall under the definition of wonderful businesses, according to Mr. Buffett. If you're speculating in these, I mean, it is truly just for the short term profit, the outlook for them isn't very good. Part of the reason they're moving all over the place is because they have been heavily shorted. We've gotten a lot of questions about this in our meetings with clients via the market update webinars that they provide, I get questions that come in, and emails even coming into the firm around GameStop when this first start started happening.

I think it's helpful for people to understand, well, what's even causing this? It's not, this isn't necessarily unheard of, short selling, short squeezes happened before, but I don't think people necessarily understand even what those concepts are.

Bill Keen: And remember, Matt, when this first came out, I think that first week, we got a call into the firm from Fox, the local...

Matt Wilson: Yes.

Bill Keen: ... Fox 4 station and asked one of us if we could be available to appear on their program. I said, "Okay, I'd be willing to do that. When do you need me to do that?" They said, "Well, right now if you could."

Matt Wilson: Yeah.

Bill Keen: "Can we just do it now?" I said, "Whoa! Can you give me like an hour or so to collect my thoughts on this," because it just all started at that point just about a month ago or so. Yeah, in that segment, I tried to talk about short selling, but if you ever watched the news clips, there's not a lot of time to go into saying. Talk a little bit about that, if you will, if you can condense it pretty quickly into what a short sale actually is to set the stage for them.

Matt Wilson: Short sale is a strategy that speculates on the decline in a stock. Then, the idea is, okay, so you don't own it, you're going to borrow the stock from somebody else, and then you're going to sell it. Then, the idea is, you're going to buy it back later when the price goes down, and then deliver the stock back to the person who borrowed it from.

Bill Keen: That seems amazingly complicated too, the layman that's listening to this, our discussion, hard to understand. You're going to do what now? You're going to borrow stock from somebody, you're going to sell it and then you hope it goes down so you can buy it back, and then give it back to the person and you made a profit because it went down. That, in and of itself, seems-

Matt Wilson: That's the simplest form of short sales. Yeah. There's other ways people do it. Really, it's institutional professional investors that participate in this. There's, I would call maybe, in the investing world, they're people who do this for a living. They're betting on stocks going down. They have comments and I do believe reasonable comments that, hey, they're uncovering fraud, meaning they're doing analysis, research analysis, and they're looking for companies that are very poorly managed and they believe the share price is going to go down because they're poorly managed or maybe they have accounting fraud that they believe which hasn't been uncovered, yet.

I mean, all kinds of different reasons why they think their share price is going to go down, which isn't as common as most investment analysis is, why would I look for all the stocks that are going up? You're looking for the opposite, all the good things that make stocks go up. Some people do it. They believe, hey, it's a way us to, as short sellers, kind of uncover fraud within the market that maybe the regulators can't because again, these financial statements are very complex, there's a limitation to how much regulators really can go after and review everything to know what's going on.

That's why professional and institutional investors do that. They also do it to hedge, so they might own a bunch of stocks and they're going to short some stocks and that's going to reduce the volatility of their portfolio. That's probably the most common way short selling is utilized.

Bill Keen: GameStop had a lot of short interest. This is public information. It's important understand that anybody can get the information of which stocks...

Bill Keen: You know what you're looking for, that's right.

Matt Wilson: ... have been shorted and how heavily they've been shorted.

Bill Keen: That's right.

Matt Wilson: That's an important piece of this. What they're betting on, these short sellers, is that yes, GameStop's price isn't very good and it's going to go down in value, even more so than where it was. Well, then with these forums, Reddit and some of these other ones, people got together and there's actually one person who's kind of getting in trouble for this right now in having to talk to the regulators and talk to Congress about it, about, he did the analysis that said, "Well, hey, there's all these people that are short the stock."

If we all band together and go buy a bunch of shares, we're going to raise the price of the stock and when we raise the price of the stock, what happens is the short sellers are forced to do one of two things, because when they sell share short, most of the, they're doing it on margin. They have a loan against it. They're using leverage. When you have leverage on an account or you have margin on an account, you have to maintain that margin balance. If the market goes against you, you have to deposit money in the account or you have to liquidate the positions to pay the money back that you borrowed.

Bill Keen: To liquidate means you have to buy?

Matt Wilson: In the short sale, yes.

Bill Keen: Yes, yes.

Matt Wilson: Because you can have margin the other way too. This was a licensed person who had professional designation, so they had done the analysis, qualified to do the analysis, I would say, I mean, I don't know anything about the person or their credentials, but definitely kind of knew what they were doing and have mentioned on these forums that, "Hey, if we all pile in together, we're going to raise the price of this stock," and that's going to force all the short sellers to go have to buyback the stock to cover. When they buy back the stock, that's going to raise the price because now we're forcing all these purchases to be made and that's what happened.

Bill Keen: Pretty amazing, you can think about the small investors, having enough of them banding together...

Matt Wilson: Yes.

Bill Keen: ... to compete with the big money players, in these hedge funds and so forth. There's actually enough people that were willing to take action with real money and that collectively, the power of that was enough to fight the big money player.

Matt Wilson: Yeah. That causes.

Bill Keen: That, in of itself, is a new thing that we're seeing now, this whole social media thing.

Matt Wilson: The social media is kind of a lot... I think it happened in the late '90s over the internet, like some of these chat rooms in different forums but now social media has probably taken it to a whole another level with the way and how easy social media is, how many people are on social media, because I used to read articles and hear stories about people in these AOL chat rooms in 1999 talking about socks too. There was a lot less people doing that.

Bill Keen: Did you add in the ease for someone to open an account with an app on their phone with very little money to open these accounts and then to be able to trade with no commission, and now that is a recipe for this situation to kind of have fuel on the fire.

Matt Wilson: This concept, these short squeezes that thing where the stock price goes up, I mean, and that hasn't... It's getting attention like this has never happened before. It happens. I wouldn't say it happens all the time but it's happened before.

Bill Keen: What was the car company in '08 that became…

Matt Wilson: Volkswagen became...

Bill Keen: Volkswagen.

Matt Wilson: ... the most valuable company in the world via short squeeze in 2008.

Bill Keen: Yes.

Matt Wilson: Then, Herbalife was another situation where a couple of hedge fund guys got on CNBC and argued about it. One was short. It was a Ponzi scheme. The other guy said it wasn't and they were arguing about it. Well, the guy who was short lost a billion dollars on it via this short squeeze.

Bill Keen: Bill Ackman, in fact, you saw Bill Ackman at the Warren Buffett shareholder meeting when you got to go in person at one point before COVID hit.

Matt Wilson: That's right, yeah.

Steve Sandsuki: I got a picture with him.

Bill Keen: Is that before you lost the money in Herbalife?

Matt Wilson: I think it was actually, you went too far beyond.

Steve Sandsuki: He's doing okay, though.

Matt Wilson: Yeah, he's fine but my point is that this has been going on a long time. I actually read an article that in RCA in the 1920s, 1930s, similar situation, went up to $500 a share via short squeeze.

Steve Sandsuki: Came back at 10.

Bill Keen: But then it actually survived as a company, though.

Matt Wilson: Herbalife is still around. Volkswagen is still around. It's owned by I think, Porsche, 70% of it owned by Porsche right now. It doesn't mean GameStop is a bad company but there's a reason these people are shorting it. There was questions too that we got this, is this going to lead to bigger issues, because there was a lot of volatility in the market when this was going on.

The issue around the volatility is because these hedge funds that were short a stock that are now forced to liquidate it, are also potentially forced to liquidate other positions. There's a contagion that can happen when these things kind of show up randomly. The right risk controls aren't in place at the hedge fund or at other institutions. That's why the regulators start to look into it too about, well, why did this happened? Why did this stock go up so quickly?

There were more shares short, like 70 million shares short versus 50 million outstanding. I mean, something that's like, "Well, that should have never even happened," but somehow, the brokers that allowed all these people to short the stock just kept loaning out like more shares, that essentially existed. That, I think, is kind of where they'll look into it and say, there's a lot of parties probably at fault with this with GameStop. That's part of that analysis, I think that person did was they realized, well, there's so many shares short. It doesn't take much to actually cause the short squeeze happen.

Steve Sandsuki: Guys, do you think that things like GameStop, is this something that's going to continue to happen because we've got social media, we've got people that are just hanging out on social media, in forums and they're talking about this stuff. We've got all this money sloshing around the system with all the stimulus money that's out there. We've got a new generation of young investors who just grew up as digital natives and so they love to live on their phones and they love to communicate virtually with people. I mean, is this something we can expect to see more of? Does this change the dynamics of the financial markets permanently or is this just something that happens every 10, 15, 20 years and it's cyclical?

Matt Wilson: I view this is not necessarily something that we'll see on a regular basis because the right things have to happen for that to happen to this particular stock.

Now, what I think we will see, especially as Bill kind of mentioned with these online trading platforms that have made it, again, a good thing made it very easy for people to start investing money with small amounts of dollars-

Bill Keen: Speculating money, I'm sorry.

Matt Wilson: Well, I mean, people can open those accounts and own long-term investments.

Bill Keen: They can. They can. They can.

Matt Wilson: I'm not going to say that those are because I think that's a good thing that allows people to do that. Now, they've gotten in trouble for gamifying it but my point was, that I think you'll see people kind of band together and maybe hop on certain stocks and maybe run the prices up over longer periods of time, not in just like three days, where a stock kind of just continues to carry momentum, maybe longer than it should.

Bill Keen: We're not going to see this happen with companies like Apple or Google.

Matt Wilson: The large companies.

Bill Keen: The big companies that are-

Matt Wilson: There's so much volume that little investors' not going to do anything. It's only going to be thinly traded things like that. Steve, to kind of your question, that's probably been around for some time, these pump and dump with penny stocks and things like that, too. Now, maybe you're thinking, well, maybe it won't happen to just penny stocks, it'll happen to bigger companies or larger companies because more people can band together.

I don't see that as like where we have to continually worry about it but I do think, this GameStop situation, and what it does, is it, for all the hedge funds that maybe are participating in short selling and doing, they're all reviewing the risk control policies because they're like, "Hey, we're not going to be the hedge fund that has to shut down because we lost money because we didn't know that this could happen to us."

Then, people get complacent. They review their policies for so many years and then after a while, people forget that it happened. They get complacent again and then it may be happens to another hedge fund. I mean, these hedge funds blowing up isn't anything new.

Bill Keen: Yeah.

Matt Wilson: That's happened for a long time, too but the bigger issue, it may be to what I think what you meant, Bill, with these online trading platforms, is they are enticing people to trade.

Bill Keen: Yes.

Matt Wilson: That doesn't mean everyone trades. You can have an account there and just invest in an index fund or invest in one stock and sit on it forever. That can be okay but if you're gamifying it like some of these apps are, making it exciting and fun to make trades, that is not in your best interest as an investor because making more trades is not good. One, even though there's no commissions, there's still transaction costs fee and the bid-ask spread.

Bill Keen: Yes.

Matt Wilson: That's the difference in the price you pay and the price you sell. The more trades you do, the more bid-ask spread that there is. Then, two, the more you trade, I mean, I think there's been some studies on this. I don't necessarily have the hard data on it that generally you do worse.

Bill Keen: That's right. Massachusetts' Securities regulators filed a complaint against Robinhood and alleging that they aggressively marketed to novice investors and failed to put controls in place to protect them.

Matt Wilson: Yup.

Bill Keen: They mentioned in their filing that one of Robinhood's customers with no investment experience, made more than 12,700 trades in just over six months according to-

Matt Wilson: No experience?

Bill Keen: According to the complaint. My concern is for and we talk a lot about young people learning about investing money, and yes, speculation in the market, when you put real dollars, you could be in college, and we did this in college and finance and everybody does this, you have fake portfolios where you choose your stocks and you have these portfolios, you're monitoring on paper. No real money is involved and you might have a contest and who do bid best and so forth.

Well, you can learn a little bit there, but when you put real money at risk, when I was in high school, I had a Schwab account, believe it or not, and I was investing in options back then. This is in '85, 1985, '86 and I was small amount of money about thousand bucks but I was learning about the correlations between stock prices and derivative securities and owning things. When it was real money, you tend to learn lessons a little bit better or a lot better actually.

You usually learn most when you lose. When you lose something, now the bigger the loss, the more you learn, hopefully, so you don't repeat the problem but what I'm concerned about is these young people getting started and I hate to say this, but let's say somebody is successful on the first speculation and it baits them into putting money at risk that they just simply can't afford to lose.

It's also been shown that in one of those particular online apps allowed people to have way more leverage. It's allowing these unsophisticated investors to have access to how you started earlier, talking about borrowing money to buy securities, it allowed them to have way more access to that kind of thing. These derivative securities options and things they don't know about and so much, so much that even before this GameStop AMC thing all happened, I believe there was a tragic, story of someone that actually committed suicide over their trading on one of these apps.

The person thought that they owed a lot more money than they did, couldn't get ahold of anybody at the app headquarters, I guess and thought they were in debt nearly 750,000, based on information they were getting from the company, but no one would answer his calls and before the night was over, he took his own life.

I know that's an extreme example but for that one life, that's the reality and for that family that's having to go on with this. People losing money, they can't afford to lose, situations like this that we just described with this young man. I think there's ramifications that go far beyond what a lot of folks are thinking about with some of the speculation.

Will there be people that learn about investing through these things? Of course there will. There will be some good, I suppose, that comes out of it but raw speculation, in my opinion, should be reserved for the casinos. That's where I'm at with it. I'm sorry but I'm an advocate of long term investing and wealth building over time and patience and as Buffett said...

Matt Wilson: As Buffett said.

Bill Keen: I'm afraid that this is creating issues that are, like I said, a little bit wider and broader than we might be considering at this time, which is why the government's looking at it strongly.

Steve Sandsuki: Yeah.

Bill Keen: It's complicated, though. I suppose we'll be talking about this. It didn't just go away either. A month ago, it all started and as we look up today, it's still happening. I mean, this GameStop stock has been all over the map. It'd be very, very tempting for somebody to try to jump in and make a quick buck on it but those folks that get suckered in at the highs, I mean, they could literally lose it all. I'm sorry, but if someone has made money on one of these, it's most likely complete luck.

Matt Wilson: Mm-hmm (affirmative).

Steve Sandsuki: Yeah.

Bill Keen: It's my opinion on it. Somebody could argue with me and not agree, folks should sit on the sidelines, maybe watch, watch the news reports, listen to articles that have been written and learn from it, if they can from afar, but I'm not a fan of participation in these things.

Steve Sandsuki: Better yet, they need to be working with folks like Keen Wealth Advisors, where you guys know what's going on. You've got the long-term perspective. We talked about that at the top of the show here with what Buffett is doing and the three points that he made about the ample diversification, the inner calm and those kinds of things that you need to do to be a long-term investor.

Look at him, he's second third fourth richest person in the world, strictly from long term investing. You don't have to play these games. You don't have to get excited about GameStop because if you just put money away and let time work its miracle there, chances are, you're going to be doing just fine and -

Bill Keen: Live within your means, by the way.

Steve Sandsuki: Absolutely.

Bill Keen: Sorry for interrupting there but it's always a big part of this process of wealth building is living within a budget, living within your means and starting from there and building on it.

Steve Sandsuki: Absolutely.

Bill Keen: It takes time.

Steve Sandsuki: Good. All right, guys, I think we should wrap up here. Any final word here as we sign off

Matt Wilson: I think we talked about so many different things but that last piece, the Buffett concept of staying calm, time is your friend in investing and being diversified. The people who are not sitting there, reading the forums, checking the internet, reading about all the hot stocks, I can tell you everyone I've ever met, the best investors are not doing that.

Steve Sandsuki: Yeah. I'll tell you what the best investors are doing, they're listening to this podcast.

Matt Wilson: They're gay.

Steve Sandsuki: They're listening to Keen On Retirement. Please, tell all your friends about Keen On Retirement. Make sure you go to keenonretirement.com, that's K-E-E-N onretirement.com and we've got hundreds of episodes. We've got great blog posts here as well. We will keep you on the right path here as it relates to doing well financially. Guys, as always, appreciate it. Look forward to the next show. Again, visit us at keenonretirement.com. Thanks, guys.

Matt Wilson: All right.

Bill Keen: Thank you.