

Fascinating email exchange with Errold Moody

Here's some email correspondence between Errold F. Moody and me. For those of you who are not yet familiar with Errold, he's a financial planner, investment advisor, expert witness, an authentic advocate of investors and someone whom I think highly of. He's written a very good book, "No Nonsense Finance." I've recently asked him to conduct a review of my upcoming manual, 10 Minute Investment Strategies. Here goes...

My initial email to Errold (just an excerpt here for context and so that you don't get bored):

"I've just completed a manual for time-strapped, investment adverse people. I'd appreciate any feedback you'd be willing to provide and would be most grateful if you could provide a blurb for my manual (see attached pdf review draft). I'm on a mission to help people make better investment decisions. In a nutshell...

I spent years working with banks, brokerages and investment management companies as a management consultant—primarily on marketing, sales and customer service. What disturbed me the most is how focused these firms are on their own bottom line to the detriment of investors. And the financial services industry is still rife with conflicts of interest and people who lack basic financial literacy pushing products. I decided to dedicate my life to helping people get good advice and learn how to invest for themselves. I think there's a much better solution that's win win for individual investors and financial services industry.

I then sent a follow up email to Errold which contained the following observation:

I agree with you on the investing basics. What I've found challenging is trying to explain certain concepts in layperson's terms. For example, asset allocation. And I know you're going to have a field day with my "eggs in baskets" analogy. I've studied the articles you reference and I think William Bernstein is one of the few people (along with you) who understand how to put financial research into practice. I read over 300 books and numerous articles to educate myself and I'm appalled by how much junk there is out there.

Errold's reply:

I do not know if one can actually explain asset allocation. Of course one can give a superficial commentary but the point is this. The theory is fine (of course depending on who you read). But it is the correlation that is almost impossible unless one has read innumerable texts on economics and then reads for a hundred years to see if they can figure out what is going on and how the CURRENT correlations might adjust a portfolio. Now I am well aware that you cannot get - even ask- consumers to do this. It's beyond them. But you cannot get advisers to do this either because most have simply read a couple of books (if that) and use an out of date software program to "stay the course". One only gets correlations well after the fact- maybe about a year before all the statistics come in for the analysis.

The intertwining of economics and correlation is just plain hard. The consumer cannot do it. And an article that suggest one goes to an adviser is effectively useless as well- and I don't care the designations nor affiliations (you are undoubtedly aware of my personal and professional animosity towards NAPFA. Of course it doesn't stop there. I have had clients lied to and abused by the Board of Standards et al).

Personally I think most of the books on planning and investing are a joke. True, anything can work in a flat or expanding market. But the volatility we have recently experienced and will continue to see is a millstone around the entire process. Nasim Taleb had some fine words on the subject, but it won't do much good unless the adviser can adjust to such significant underpinnings of our world.

Our dialogue continues...Errold is replying to my follow up message:

Errold writes: "...normally I don't reply to advisers but she has some salient points and her effort is genuine. My comments are in parentheses ."

Nalini: I agree wholeheartedly. And I'm looking for a way to work with people that actually works. I've read a number of economics books (e.g., Joseph Ellis) to wrestle with the issues you raise. I knew things were going to go downhill since the last manic climb in equities / "gold rush" into real estate - I just wasn't sure when. And I don't purport that anyone (especially me) can time the markets with any consistency. One of my techniques is rather unscientific. When I hear bartenders and people at parties brag about a particular investment or strategy, I know it's time to run in the opposite direction.

Errold's reply: (My analysis cannot predict any specific timing. It is impossible. But I still 'like' the inverted yield curve.

Remember just a year or so ago? It is almost a guaranteed precursor to a recessionary climate. Once you see that, you REALLY pay attention to the FED, inflation, bond yields etc. Admittedly every scenario is different but I repeat- invested yield curve)

Nalini: The hold buy and hold forever thing benefits mutual funds, not investors. In the years I've been taking care of my portfolio I've not found any methodology that I can hang my hat on. I study, I ask a lot of questions, I make the best educated decisions I can. One thing I didn't address in my 10 Minute Investing Strategies manual is how to gauge the economy and rebalance intelligently. I know I need to address this somehow.

Errold's reply: (I do not know how you can do that. I cannot. One reader of my book took me to 'task' for not providing the exact keys to knowing what to do and when. The mere implication of this ability is moronic. It's reading, reading and more reading a research. And each time, you review what you did in a particular situation and figure out if it was any good, what the hot buttons were, which investment did what and on and on. It is mind numbing.)

Nalini: I teach people to look at the range of possibilities (that can happen to their money) instead of getting caught up in overly optimistic forecasts. The toughest challenge I have with my clients (I teach people financial/investing basics) is that they don't want to deal with understanding and managing risk.

Errold's reply: (I have no idea what to do here as well. The info is at my site but very few people bother. Unless it is a direct one and one, it is next to impossible t get the fundamentals across. They just don't want to make that much of an effort)

Nalini: My research tells me to begin with index funds and buy whole markets, not individual stocks. I recall you writing that none of us can pick stocks that win consistently. The research certainly supports this.

Errold's reply: (One needs from 50 to 350 stocks to be properly diversified. You can pick some stocks but once you get beyond a few, forget it)