Taking Stock with SAM: A Market Discussion - June 2023

This webinar will touch on:

- The possibility of a recession
- Inflation
- Influences on the market, such as election periods and new technology

Christine Lucero:
Welcome everyone, to our Second Annual Taking Stock Webinar. I'm Christine Lucero, Head of Private Wealth at Satovsky. Today I am going to be moderating a discussion with SAM CIO Avi Berg and SAM CEO and Chief Behavioral Coach Jonathan Satovsky. So we're going to be talking about where we've been, where we are, and where we're going. And we'll also be incorporating a lot of questions that we've been getting from clients over the last few weeks, so hopefully that'll be helpful for you. So, Jonathan, why don't you start things off with a brief summary of where we've been?

Jonathan Satovsky:
Thank you, Christine.Thank you, everybody, for joining us. Beyond grateful. We wouldn't be here without the loyal, trusting, confident support of our clients and our friends and family, and the people who have entrusted us to steward their wealth for multiple generations. And thank you, Christine and Avi and the whole SAM team, and the SAM family for being mindfully present with people's financial needs. So, we're approaching July 4, 2023, and just coincidentally, SAM was started on July 4, 2007—16 years ago. And I actually started in the business in July 1994. So I won't make you guess, Christine, but during that period of time, you may know, from 1994 to now, we've had quite a roller coaster. We've had, let's see, in ‘94 Bernacki was raising interest rates. Then we had SARS and the Asian crisis. And then we had Long Term Capital Management. Then we had the dot-com blow up and then we had 9/11. And then we had the Iraq war and then we had the 2007- 2009 crisis and then we had 2011, Brexit and the US government threatening the default on our debt, the Tea Party uprising. We had, obviously, COVID and a massive explosion in inflation, and now we've had the fastest rise in interest rates by our Federal Reserve and central banks around the world in quite some time. So it's been quite a roller coaster.

Now, here's the question for you, Christine. With the S&P 500 at 4,500 today—you don't have to sound smart by not knowing the answer, it's okay, this isn't like a challenge—but what do you think the S&P 500 was in 2007 and 1994? Actually, I won’t bother you, Avi, what do you think?

Avi Berg:
I do know the answer, Jon.

Christine Lucero:
I would have guessed, if I didn't know the question beforehand, I would have guessed that in 1994, it probably would have been at about 800.

Jonathan Satovsky:
Okay, reasonable, reasonable guess. And in 2007, what do you think?

Christine Lucero:
And in 2007, I would guess maybe about 2000.

Jonathan Satovsky:
Okay, so would it surprise you to know that from 2007 to now—this incorporates a 56% decline in 2007-2008, a 34% decline during COVID in 2020, and a 25% decline in 2022—the S&P 500, which is sitting around 4500 today, in 2007 was at 1500, meaning it basically tripled even through those financial crises. Now going back to 1994, the S&P 500 was 450, meaning essentially we've ten x-ed the growth in the US economy in spite of all these crises. I'm not telling you there are not things to be worried about. I'm not telling you that there's not going to be crises, there's not going to be setbacks. But think about that. I mean, it's astounding to think that we've had a tenfold increase during these last, almost 30 years. And so I would suppose if you extrapolate that forward if you think about where we've been and where we are and where we're going, if I forecast the next 30 years, I know I'm not supposed to forecast, but I'd say we're going to have crises, we're going to have setbacks, but we're also likely to ten x the growth from here, which is kind of mind-boggling to imagine. So it's pretty cool.

Christine Lucero:
Awesome. So bringing it back to today and where we are, Avi, this question is for you. We heard all this talk about a recession and the months keep coming by and there's no recession. So what's happening?

Avi Berg:
That's a good question. So we put a couple of slides together that I thought would be helpful in answering some of the questions. So this slide, which you see here, is something that I had actually published in the fourth quarter letter that we published in January. And basically what it said was that we were at historic levels of the percentage

of people who thought we were going to hit recession sometime in the next twelve months. Sometime in 2023. And so far that hasn't happened. So why is that? I think if you look, at what people were looking at at the time, one of the things that people were nervous about was just how close the S&P was tracking 2007 and 2008.

Jonathan Satovsky:
I remember this actually. I remember seeing on virtually every social media site—this is maybe before the whole conversation about AI—every single social media site, whether it was Twitter or Instagram or Facebook, this graph, people were texting me this, sending me this everywhere. Like, "How do you not know? Don't you see what's going to happen?"

Avi Berg:
Yeah, and we're right at the precipice in January, right? We were right where we were about to go all the way down, right?

Jonathan Satovsky:
And coincidentally, something I've talked about for a long time in terms of behavioral finance is the idea that because fear is a two-to-one driver to greed, it has caused money flows in the world because last year was a down year and people worried about interest rates, post the declines, people stop saving, people stop investing, people hoard cash.

Avi Berg:
And you see it in the data.

So fast forward to today, and you'll see this is what's actually happened. We were tracking and now we've had actually a pretty large gain for the first half. We're up 14 and a half percent in the S&P, which is a pretty strong gain for the first six months.

Okay, what are the reasons for that? So in the first quarter letter, I actually talked a little bit about jobs and employment. You'll see that we are at a historic high in terms of job openings. Companies are still searching for people to hire, and unemployment is really low. There just aren't a lot of people to hire.

Jonathan Satovsky:
So if you want talent, it's hard to find.

Avi Berg:

And you don't hit recession when companies are still looking for people, right, because company earnings are still pretty good, and that's why they're looking for people. They're looking for growth. So even though we're a little bit off our highs, we're still at a historic high. And we follow this pretty closely, but so far this is, I think, one of the clues as to why we weren't going to hit a recession.

The second thing is that coming out of COVID and '08, household balance sheets are in really good shape. This chart shows the ratio of debt to net worth. You can see it's actually pretty low. We haven't seen it this low since the early 1980s.

Jonathan Satovsky:
So this is probably a combination of people hoarding cash in COVID. They were staying home, they were hoarding cash, and then interest rates were low, at record lows. So people were refinancing or buying houses. People were migrating across the country to better locations, locking in cheap mortgages, and they had all this discretionary money and they couldn't travel, so they were just, they were stuck.

Avi Berg:
That's a good queue up to the next chart, this was one person's estimate of the excess savings during COVID. You could see they didn't have anything to spend on, so they were saving at historic rates. And the estimate is around $2.3 trillion of excess savings. And what we've seen once the economy sort of opened up again, is that we're drawing down on savings, but we still have about a trillion dollars left. So there's still a lot of money that's kind of waiting to be spent. That, along with companies doing pretty well, I think, has led to the non-recession.

One of my favorite people is Howard Marks from Oaktree, and he always says that people ask him about whether we're headed to recession and his answer always is, "If we're not in a recession, we're headed toward one. The question is when?"

So that we've seen in the estimates too, right? Which is, first they thought the recession was going to happen in the first half of 2023, and that hasn't happened. So now they're saying the third quarter of 2023, and that'll keep getting pushed out until it happens. And it will happen at some point, you just don't know when. So that's kind of where we are.

Christine Lucero:
Right, okay, well, what are your thoughts on inflation and interest rates? Because these are questions that we've been getting a lot.

Avi Berg:
Yeah. So the first thing on inflation, I'll take this first. This graph actually shows the Federal Reserve's estimates of inflation. Now, this is their job, right? Their job is to figure out inflation and then figure out what the interest rate should be. And you can see from the dotted lines, at any point in time, they thought inflation was going to come down super quickly, and it didn't. And that's what this chart shows. So, the solid line is what actually happened, and then the forecast is in the dotted lines. And you can see they were just wrong, and not to blame them, it's super hard to actually forecast inflation. I think that's really one of the critical things just to sort of think about first, which is, everyone's got a view like, "Oh, inflation's going up!" "Oh, inflation's going down." But even the Fed doesn't get it right, and they spend a lot more time doing this than pretty much anybody else.

But inflation is actually coming down. So this is actually the data. It's not quite at the 2% level that the Fed is looking for, but it is coming down. And that's given the Fed a little bit of cushion, which explains the pause that we saw in June.

Christine Lucero:
Do you think 2% is realistic, by the way?

Avi Berg:
Eventually? I mean, we were 2% for many, many years. We could go back to a longer-term chart. You can actually see it. I don't have it here, but we have it somewhere, but it's going to take some time to get there. But I think what's interesting is that one of the things the Fed is really concerned about is that people's expectations of inflation get embedded if it lasts a long time. So if you're at 5% for a really long time, then you're just going to assume it's going to be 5% forever. And it's very hard to break that cycle. And if you look at the next slide, you'll see this is the market's expectation of inflation. And you can see it's already down to 2% for the 5-year and for the 10-year. And so this not only gives the Fed a little bit of cushion, because you can see that inflation expectations aren't really embedded, high inflation I should say, aren't really embedded in the economy, at least according to the market.

Jonathan Satovsky:
But based on this, you still like TIPS, because the implied inflation rate being 2% and real inflation being higher than that, there should be some opportunity to make…

Avi Berg:

It's also a skewed question, right? So relative to kind of playing treasuries, is there a higher probability of being at three versus being at one? And I think the answer is yes. So that's one of the reasons why we like TIPS.

Jonathan Satovsky:
Got it. Thank you. All right. Mortgage rates, interest rates. You want to talk about that, Christine?

Christine Lucero:
Yeah, I think you have a good example of a mortgage rate.

Jonathan Satovsky:
So I'll touch on this. It's interesting, I moved to New York in the early 90s, and when we went to buy our first home, I remember in '94, '95, the commentary was, "Do I take a fixed rate loan at 7% or do I take an adjustable rate loan?" And the mortgage broker was saying, look, rates have not been this low in 30 years. You should definitely take a fixed rate of 7%. That's a great, great rate. You should be super psyched. Well, it's funny, as you can see by this chart, the vast majority of time, since that moment, rates have come down. They've only gone lower and lower and lower. So clearly the mortgage broker gave me the wrong advice. I should have taken an adjusted-rate mortgage, but I didn't stay there long, so that's fine.

That being said, as you can see, post-financial crisis 2008-2009, such extraordinary measures to be able to stimulate demand brought rates much, much lower. To stimulate risk-taking. Some people were able to refinance the long-term debt and lock those in. There are a lot of adjustable-rate loans coming due in the next three to five years. But when everyone's so freaked out about over 6% mortgage rates, it's kind of on par with history. It's just, similar to what Avi was saying about expectations around inflation or interest rates, if you're used to, "Wait a second, two months ago I was able to get a mortgage of 3%. Now it's going to cost me 6%. I can't afford as much of a home." The impact has been, people have left their home location. People have left New York and California. Moved to Colorado and Texas and Florida. Well, now people are more stationary. There's less migration happening across the country because people are kind of locked in their homes at a cheap mortgage. They're like, "Wait a second, if I sell this and I got to go buy something else, it's going to cost me more money!". So there are definitely going to be some impacts. But to keep it in perspective, mortgage rates are kind of back to a normalized state of where they've been historically.

Avi Berg:
Now just to add, this is a chart that shows that forecasting interest rates is also really hard. Now, this is also Fed data and separate from inflation, which is something they don't control, this they actually control.

Jonathan Satovsky:
I'm going to draw on this a little bit. I'm just going to show, like, I think, Fed rates around five to five and a quarter. So this is about where we are now. So you can see by and large across the board, right, they're all implied longer-term rates that are going to go down in 2024 and 2025.

Avi Berg:
Yeah, that's what they're saying. One of the other interesting things about this chart is if you look historically so, for example, in sort of June of '21, the expectation of interest rates in '23 was at zero. And then every couple of months, they're like, "Oh, we're wrong. It's going to be another 20-30 basis points higher." And then again, it's another 20-30 basis points higher until we're at 5%. Right? And again, this is totally within their control. Now, again, they change it relative to inflation and other things. So there are other factors, but it's very hard to forecast these things. And so we don't try to make directional bets on what's happening with interest rates.

Jonathan Satovsky:
It reminds me of this quote, which I wanted to capture. I always talk about fortune tellers. I like how Charlie and Warren talk about these. But we've long felt that the only value you could say stock forecasters or interest rates or Fed funds rates forecasters is to make fortune tellers look good, right? Anyone that thinks they know, even who's going to win the Super Bowl this year, hopefully, the Detroit Lions. Even now, Charlie and I continue to believe that short-term market forecasts are poisoned and should be kept locked in a safe place away from children and grown-ups who behave like children in the market. People are like, "Oh my God, they're definitely going to do this. How do you not know?" And when everyone is certain of something, the only thing I do know is when everyone is certain something else is going to happen.

Christine Lucero:
So with July 4th upon us, how about some inside baseball commentary? This is for you, Avi. What's under the hood?

Avi Berg:

All right, so let's talk a little bit about that. This is a chart on valuations historically. And what we see here is that basically, valuations are kind of around normal. They're maybe slightly above the average over the last 25 years. And contrast that, I think a lot of the press is like, oh, things are super expensive. It was reasonably expensive in 2022, the market declined, and so now we're slightly above normal is what I'd say. But I think under the hood, this is really something that I think is super important, which is, since March, when the banking crisis started hitting, U.S. large-cap growth has massively outperformed. As an example of small-cap value, this 2500 basis point divergence is really, really abnormal. And I think what often happens when this occurs is that there's some kind of snapback.

Jonathan Satovsky:
Before you go there, I think part of the reason this happens is that small businesses are so nervous, right? Everyone's so nervous. Everyone's so worried about the future. So people are like, well, I don't want to finance that small business. They might fail, they might go bankrupt, they might be in trouble. So people are more nervous about small companies, and that may lead to dispersion because people just feel safer owning large names. Sort of like the Nifty 50. Not to be a Negative Nancy, but this was interesting.

Avi Berg:
Yeah, I think you're totally right. So what you see here is the valuations of US. large-cap growth versus small-cap value. And large-cap growth relative to the average. It's actually, on an absolute level, it's pretty high, but also even relative to its average, it's pretty high. And small capital on an absolute basis is pretty cheap.

Jonathan Satovsky:
And even on a price to book MPE ratios. Not that these are the only sole metrics, there are a lot of other factors. But just on a numbers basis, it looks kind of skewed. So the opportunity set might be better in small companies at this moment in time. Which actually it's fascinating because I was thinking about this, people worried about like, "Oh my God, the next decade is going to be terrible!" In the 1970s we had a 50% decline, right? 1973-74, we had a pretty bad decline. And the small companies in the U.S. averaged 8% a year. And small-value companies averaged 13% a year. And internationally, they averaged 22% a year. And in the 2000s, when the markets had two close to 50% declines, small companies in the US averaged 6%. While the markets did nothing. The broad markets measured by the S&P 500, and small value companies did over 9%. Internationally, they did 9% for small companies generally and small value companies 11% a year. So even if the broad markets and the headlines come down

because of the way that the broad markets are calculated, you could still get healthy, vibrant growth from the other 98% of businesses in the world. But the statistic that's most interesting is this works, right? Like, historically, most everyone should know by now that small companies have generated a 2% premium over time, over large companies. But it doesn't work all the time. It works over time, just not all the time. And this is sort of highlighting those factors. And the factors we generally focus on are small, cheap, and profitable. So they're not all working at every moment in time. It's just over time. It's just logical and makes sense.

Avi Berg:
Yeah. So we made a couple of changes on the margin of most portfolios, so I thought we'd use this opportunity to talk a little bit about it. One of them is Japan. We've added a little bit to Japan. So you can see on this chart that Japan's valuations are close to all-time lows, and especially relative to the US, they're at all-time lows.

Jonathan Satovsky:
This is the 25-year average, right? And this is currently where things are.

Avi Berg:
Current is at 13 times. And then if you look at actually Japanese small caps, they're even cheaper. It's not on the chart, but they're more like ten to twelve times. We've always had some position in Japan through our diversified sort of international portfolios, but we wanted a little extra exposure, so we added maybe 1-3%, depending on the portfolio.

Jonathan Satovsky:
So market capitalization of the equity in the world, just to give a little perspective, 59% of the publicly traded equity in the world is in the U.S. and Japan happens to be the second largest market with 6% of the global publicly traded equity. And we might weigh that just a little bit, just slightly heavier to give someone an advantage. Again, we don't want to do anything, just on the margin, to give someone a little bit of a risk-return advantage over time. Right?

Avi Berg:
Yeah, absolutely. And earnings have been pretty good and the stocks are cheap.

Jonathan Satovsky:
What's interesting is people hate Japan, right? Because from 1990, from the 90s on, it's been in the toilet. Right. It's been suffering deflation. So it's always been kind of a

value trap. I think a lot of people have been trapped in this. But what's changed now? It seems like because of global inflation taking hold, Japan might be getting out of their inflationary cycle and they have better leadership and things have changed and earnings have been pretty good. So all those things have been working in their favor. So again, it's on the margin. And look at that! Even Buffett's been buying.

Avi Berg:
There you go. And the other thing we've done is we established a small position in commodities, including oil and natural resources. So we think that there is a possibility for some dislocation in the supply and demand for materials, especially with EVs growing and other things, that need a lot of copper and cobalt, and various other metals. And also that the supply of oil may be peaking in the shales—because the shales are peaking.

Jonathan Satovsky:
You're basically buying one of the most dislocated areas of the market at the moment.

Avi Berg:
And we're buying it at a time when there was a big increase when Russia invaded Ukraine, that's all retraced. So the stocks have actually come back quite a bit. Again, this is like, on the margin, a small portion of people's portfolios, the core of people's portfolios are going to remain the same. It's broad exposure. We have exposure to large-cap, all those large-cap growth companies as well, but we're just tilting a little bit more towards areas that look interesting.

Christine Lucero:
Okay, so looking ahead, we have an election around the corner. There have been massive advancements in technology. We have tax law provisions that are expiring. So arguably all of those or any of those could have an impact on markets. So why don't we start with the election? Avi, do you think that the 2024 election will impact markets?

Jonathan Satovsky:
Before you get into this, Christine, I thought we're not supposed to talk about religion, sex, or politics.

Christine Lucero:
We're just talking about whether it's going to have an effect. We don't have to talk about who our candidates are.

Jonathan Satovsky:
I'm just joking. I just want to say that similar to the idea of trying to remain calm, I think it's going to be a very heated year and a half ahead because you're trying to capture the soul of the moral and ethical fiber of our populace. So it's going to lead to a lot of…

Christien Lucero:
Right, there is provocative.

Avi Berg:
So if you actually flip one chart, you'll see basically, regardless of who wins the presidency, historically, it hasn't really made much difference in terms of what's happened in the market. If we had a chart like this for who controls Congress, it would look exactly the same. It doesn't really matter. Obviously, it matters for a lot of things, but in terms of market performance, we haven't really seen any kind of correlation between if it's Democrat or if it's Republican. You want to own it through whoever controls the presidency, you want to be present in the market.

Jonathan Satovsky:
Well, that's probably because of the checks and balances, right? Every two years, you can just boot out the people you don't like in the House and the Senate.

Avi Berg:
I mean, clearly, it has a lot of impact on lots of things, but just kind of narrowly thinking about it. Here's another chart that basically shows the same thing. We see the green bars are Democrats and the red bars are Republicans, and you see other than Herbert Hoover and a little bit of Bush, it's almost always positive regardless of which party is in power.

Christine Lucero:
Okay, so moving on to technology, how do you see AI or EV or other technologies changing the way we invest?

Jonathan Satosky:
So this is kind of interesting. I thought this was a fascinating statistic that has gone around. It took Netflix three and a half years to get to a million users. It took Twitter two years. It took Facebook ten months. It took Spotify five months, Instagram two and a half months. It took Chat GPT five days for a million users and it's just gone up from there at an exponential rate. So technology and the adoption of technology are having

a profound impact both on business and on consumers. I think, by and large, all these innovations and all these advances improve people's quality of life. Things are easier, your ability to be able to get information. So I actually was thinking about this in regards to how long companies exist. If I go back 100 years and you look at the top companies, you might remember AT&T was like a stalwart, right? 1917. And even 50 years later, it was still like a stalwart in the world. Now, it's obviously clearly not one of the leaders in the world. It took a long time for change to happen. Now, reportedly, the average company, the survivorship of the average company in the S&P 500, is 14 years. So what I would say, in an interesting way, and this is the reason we diversify, why we aren't uber-concentrated, is because the leadership of the companies is going to change at a pace that is really violent.

And just to use an example here, in 2017, you have Apple, Google or Alphabet, Microsoft, Amazon, Facebook, Berkshire, J and J, Exxon, J.P. Morgan, and Wells Fargo. Christine, just for a little fun, which of these companies are still in the top ten today, would you say? Or which aren't in the top ten today? Which would you like me to cross off? Just pick the ones you want me to cross off. I should probably ask the audience. Anybody in Q&A want to guess which of these companies are no longer in the S&P five? Don't cheat and don't look it up on your phone or computer. All right, Christine, give it a guess.

Christine Lucero:
All right, I'm going to say Berkshire Hathaway is no longer in the top ten. I'm going to say Exxon. Wells Fargo. That would be my guess.

Jonathan Satovsky:
All right. J.P. Morgan and J&J are no longer part of this top. Okay, so today the top ten are Apple, Microsoft, there's Meta, or Facebook. Amazon is still there. Google is still there. The additions, going to your point about AI, are several companies that are at the forefront of AI that impact a lot of people's lives. Nvidia, it's invisible to most people, but it's a chip manufacturer that has gone parabolic because of the interest in AI. AMD, which is also a chip manufacturer, Salesforce, and Tesla, which is also considered at the forefront of AI with the things that they're doing. It's not being measured as a car company. Most of that valuation is being measured based on AI. So it's exciting. It's amazing. But I would say that be careful because it's like, “Oh, it's so obvious. How do you not know all these companies?” I'm not a forecaster, but I would venture to bet those ten companies will not be the top ten companies at the end of 2020.

Good bet. But the lesson from Berkshire is that—and this is both a financial planning lesson and also a lesson in structure of survivorship—is that you want to design a plan, a financial plan or investment portfolio, that if the 100-year flood happens, let's say we do have a major recession or something more dramatic, there are risks. I'm not ignorant to the risk. With rising interest rates, 40% of our national debt might be going up in debt payments. So there's clouds. There's things I can go on and on. I don't want to talk about all that and be a Negative Nancy. But there's a lot of things that can go wrong. So part of one of the lessons from Berkshire, and why I've been a fan for the last 25 years, is the idea that 10-15% of his portfolio is always liquid. So that, 1. You're never a forced seller. So that's why from a balance sheet perspective, we want to make sure people have liquidity or short-term bonds or assets that are readily liquid so they don't have to sell long-term assets and they can live through 50% declines. And 2. That you can deal with periods that you are zigging when the world is zagging. Meaning if you are a value person and are more value sensitive and you say, you know what? I don't want to own companies that are being priced through the roof, like the Nifty 50, and or if you're saying large growth companies are being overpriced, how do we get a margin of safety to lean against that? Well, you have to understand, of course, we're trying to do that to a degree, but you're going to have periods where you're going to question the stewardship, meaning, I always use Berkshire as an example. Forget Jon. Forget Avi. Let's assume I set up a blind trust, and you put it all in Berkshire because you figure he's the best investor in the history of mankind. If all you saw is the performance relative to the S&P, you would say, "Oh my gosh, my manager is a genius!" "My manager is an idiot" "My manager is a genius!" And so on and so forth.

So it leads to a lot of behavioral risks if you aren't planning in a process and a structure that makes sense. And even showing the historical chart, like the Ibbotson charts, where you see clearly that small companies generate threefold the growth year to date and with small companies lagging if people were just focused on their short-term performance and not thinking multi-generationally, not thinking about 25 years or their kids or someone's grandkid's kids, you're going to shoot yourself in the foot. There are going to be too many opportunities to make behavioral mistakes. And in order to steward someone's money effectively, not just for their longevity, but for multiple generations, you've got to account for these things.

Christine Lucero:
Okay. Lastly, I just want to talk about estate taxes. So if we're looking forward, the estate tax laws are very favorable right now. Each person has about $13 million that they can transfer during life or at death, sheltered from estate taxes and federal estate taxes. And for a married couple, that's double. So it's close to $26 million. And at the

end of 2025, that provision in the tax code is going to expire. And so basically, it's going to go down to approximately $7 million per person, indexed for inflation. Obviously, we'll have to see where inflation is in the next few years, but that's a very big difference. And so, the bottom line is that the law is changing, absent another change in the laws. And it's a planning opportunity not for everyone, but certainly, if you do have an excess of $7 million as an individual or $14 million as a married couple, there could be things you could put in place that will help save taxes. So reach out to me. Reach out to Frank Torrone on the team. Reach out to your estate attorney. It never hurts just to have a conversation to see what the options are and whether you're willing to do it or not do it, at least you know that you're educated in the choices that you have.

Jonathan Satovsky:
Thank you, Christine. I'm sure that is often overlooked. People wait till December 30. Someone's like, "You know what? I'll make estate planning changes. Why don't I just do it the day before I die?"

Christine Lucero:
Right? Well, the other thing is, I feel like this was so clear and present a couple of years ago. Everyone was talking about it. All the attorneys were pushing to change and update your estate plan. And I don't really hear much about it anymore. So it is changing. And we have a couple of years to go, so I just want to kind of bring it to the forefront.

Jonathan Satovsky:
We're now at a Q&A session. If there are people in the chat that want to add any questions, we'll certainly, gladly answer any questions that people may have directed to Christine, Avi, and myself. The first one I see coming in:

"Thinking about the future of transportation and what is going on to power the way we get around. There is new battery technology around the bend with lighter weight, better charging power, and longer range. Is this technology being looked into as safe investments for the future versus auto manufacturers who seem to be here and then gone?"

So it's a good question. And it actually leads right in, directly into the philosophy of how we've adhered to things. Going back to this slide of the factors, there are four factors that we focus on that are kind of in line with just what seems logical, but it's also based on academic evidence that works over time. There's robust, persistent,

sustainable evidence that if we can focus on the cheap, profitable companies, we can do it cost-effectively to minimize both fees and taxes for clients over a lifetime. This is important because as technology changes, those companies that are no longer cheap and profitable—there are companies that might be cheap, but they might be unprofitable and on their way to going bankrupt. So cheap and profitable companies, let's say technology companies, or if automakers adopt new technology that makes them more prevalent throughout culture, it becomes extraordinarily profitable, they would have greater exposure and greater weight in clients' portfolios. It's just natural, that's the way portfolios are.

Avi Berg:
I think also what I would say is that the way these things tend to work and we've seen it multiple times with different technologies or whatever, is you have, like, the early sort of adoption phase where things are just new and there's lots of different technologies that are competing for what's going to win and lots of technologies. And then there's, like, massive adoption, and there's a huge amount of interest and excitement and valuations. Okay? And then a lot of those companies fall by the wayside, and then there's a few winners, and then it kind of grows and it's still in its fast growth phase, but you know who the winners are and then it matures. And I think the EV space, the battery stuff is still in its early phase. So most of the companies are still not profitable, which ultimately, I think will mean that some of them will kind of fall by the wayside. And at the end of the day, we don't know which ones. And then as they get bigger it'll become part of the portfolio.

Jonathan Satovsky
I was just thinking about the advent of how fast technology changes. Companies can become a billion-dollar company with a handful of employees because of technological changes. So the companies that are going to come to pass in the future, that are going to be the leading companies in the decade ahead, are going to be something you may never have heard of.

Okay, good question.

"Do I think that the future of AI could replace human financial advice?"

When I first started, I worked at American Express and they said a third of people are going to do it themselves. A third of people are going to be completely advisor dependent, and a third of people are going to be in between. And that seems to be the formula regardless of what's happening. So people can use technology now, right?

I mean, technology is available. People can do financial planning and wealth management and execution, but the one thing they can't do is, as my good friend Mitch always says, “It's easy to be Einstein for others and Mr. Magoo for themselves.” So I think that a lot of people benefit by having someone that they trust to, at times, challenge them, in a care-frontational way. To challenge people's misbehavior. Because if you realize that the “behavior gap” that I talk about often has led to between 2-6% a year in mistakes because people are like, “I know what I'm doing, I'm fine, I'm fine, I'm fine, I'm fine.” But somewhere during a ten year period, they could get influenced by an article they read, by someone they meet, by something and they have a big decision to make. So I can basically not talk to you for nine of ten years, but I speak to you one year, and I protect you from making one massive mistake, then it's worth having a trusted advisor in your life.

Christine Lucero:
Right. And I'll add on to that. I actually had a conversation with a client today, and she was like, “You know, Christine, the thing that I appreciate the most is the collaboration between us. The ongoing collaboration and the fact that you hold me accountable.” So, I don't know, is AI going to hold someone accountable or are they going to collaborate with them, maybe?

Jonathan Satovsky:
Well, there's actually evidence that post-COVID, there's a tremendous amount of mental health issues because of isolation. So I think it's undervalued and not talked about enough of how important having structure and support in your life is. Whether it's a community, whether it's religion, whether it's a spouse, whether it's a financial advisor. Having that support system is really important because people are left too long in isolation. We're communal animals.

Here's a question about the environment.

“Should I be concerned about the environment? Vis-à-vis buying into oil?” That's something that many years ago, oil and natural gas and all these commodities have been flat for a decade. I mean, it's basically been there's no return that's generated there, and you're not doing something good for the environment. So it's like, why would I want to own that? Why would I have any exposure there?

Avi Berg:
Yeah, so I think there are a lot of things that we could talk about around that. I mean, clearly, there are some people where it viscerally sort of makes them feel bad that

they're sort of investing in oil. But I think, first of all, people need it. Think about the world if we just kind of shut down oil like today. Like, with no oil. Right? Yes, we have some like 1% of the cars outstanding are EVs, but the other 97% or whatever are still gas. How do they get around? How do you fly anywhere? How do people heat their homes? There are so many uses. In addition, there's also the gasoline. The transportation piece of oil is only half the usage. Then there's the other half of the usage, which is in chemicals and other things. So the world is going to need oil for a very long period of time. I do sympathize with that view about the environment, and I think the real question that you have to ask is, like, how do we get to a place where we can transition away from things that are dangerous to the environment? And I think over time we should be able to do it, but we can't just turn ourselves off today.

Jonathan Satovsky:
Got it. "How will Russia and Ukraine affect my portfolio?" That's actually kind of interesting because that would lead to the idea of why having oil, natural resources and commodities, because if you have disruptions in supply shocks, you'll get spikes, and that could be a good hedge instance. Portfolio, I do it like probabilistically. Right? Let's say it's a small probability, but that event could create an extreme outcome. Right. And that extreme outcome, having that to be able to offset the decline in other parts of your portfolio will create a little bit of a smoother ride and cause a little bit less probability of someone freaking out. Right?

Avi Berg:
Totally. Yeah, that's exactly right. That's exactly right. And look, I mean, what we saw initially is that people were people get nervous whenever there's like an event like that. And look, I don't want to belittle the whole war, which is a terrible, terrible thing, and we could go into all the sort of politics and other things around it, but just in terms of kind of how it impacts portfolios, there's always fear of what's going to happen. So oil spiked, Ukraine is a big export. Wheat, wheat spiked. Various commodities tend to spike at the same time. So then all of a sudden, like, a bunch of commodities spike at the same time. That would have been some kind of damage to other things that were going on in the portfolio at the time. So yeah, totally agree with you.

Jonathan Satovsky:
I actually want to go back to this last point. I thought this was kind of an interesting slide, just talking about the science of how this has evolved, of taking the broad market and leaning it. And this is where we're using AI to make portfolios more efficient for people. They don't see it, but the ongoing construct of how we're continually working to improve the dynamics of a portfolio is to lean systematically toward these factors to

be able to give people a higher probability of long-term success and sustainability. So when disruption happens in companies and in the market, we're giving people a smoother experience over time. So any last thoughts from you, Christine?

Christine Lucero
No, you guys did great. Thank you.

Jonathan Satovsky
Well, I want to thank everybody, most importantly. Thank you, Christine. Thank you, Avi. Thank you, Finovo, and our clients who have entrusted us to steward their wealth for the last 29 years. And I plan on peaking, I always say this—as people get older, they want to retire at 65, but because of longevity it's very probable that many people are going to live past their 100th birthday—so figuring that, I'm going to live past my 100th birthday, I'll use Charlie Munger as a role model. And if I could peek at his age, at 99, and continue to ascend, then I'm on my way. So hopefully we can continue to improve. And thank you for your trust and confidence in us and we look forward to stewarding not just your own finances, but the next generation and your grandchildren and your grandchildren's children if we're so fortunate. So thank you very much, everybody, and have a wonderful evening.