Creating a more confident investor

Greg Lindsay: Previously, we explored how an explosion of new instruments has democratized financial planning — and in doing so accidentally short-circuited investors with an over-abundance of options. Too much is not enough, it would seem, when it comes to making decisions. Given so many choices, the average American is prone to a host of cognitive biases such as "anchoring," "herding" and other colorful names, all of which are triggered by the stress of having to decide — at precisely the moment they need their full attention.

It's one thing to have a choice, it's another to feel confident about it. Where does that confidence come from, and how can investors build it over time? One way is to better define their options. That's the conclusion of Columbia Business School professor Sheena Iyengar, author of the award-winning book, "The Art of Choice." Among her recommendations is to bolster consumers' confidence with personalized, expert advice. In this final episode, we explore how, exactly.

This is a Vanguard podcast, produced by EI Studios. I'm Greg Lindsay.

Greg Lindsay: "Imposter syndrome" is the erroneous belief that one's accomplishments and expertise amount to little, coupled with a persistent fear of exposure. It's a feeling common to investing, especially when one's money is considered a taboo subject. But facing that fear is critical to making sound decisions.

Chelsea Brennan: Confidence is a huge factor of anybody getting on top of their finances –you have to believe that you are capable of managing that money, you have to believe that you are worthy of having financial security, of having wealth, to be able to make the steps and build the habits that get you to that place.

Greg Lindsay: Chelsea Brennan is a former hedge fund investor and founder of Smart Money Mamas, which — you guessed it — offers financial advice to mothers.

Chelsea Brennan: So often ,we hear people who are saying on one side that they want more financial security, but on the other, they have a lot of fear, a lot of anxiety, and a lack of confidence about money. When you get to talking to them, they say they want financial security, but they think that they'll screw it up as soon as they have it. And that prevents them from taking the correct kinds of action. It's the small, everyday decisions that you're not going to fix things overnight, that making mistakes does not mean that you're bad with money, but that every little decision you make—whether that's reading an article, listening to a podcast, transferring $5 into your savings account— is a boost to your confidence and that you are going to create the financial life you want.

Greg Lindsay: Slowly, slowly, and then all at once, these small decisions can snowball into the realization they need more choices, more confidence... and more advice. Often these moments occur after life-changing events. Others are more serendipitous. Jen Mayer is an investor who felt that urgency after having a baby, which framed her future in a new light. She walks us through the start of her investing life.

Jen Mayer: "What prompted me to take control of my investing future is after becoming a parent. It just hit me like a ton of bricks that I was responsible for this person and if I didn't set myself and our family up for our financial future, it wouldn't just impact me, it would now impact my children. And there was something about becoming a parent that helped me see the generational flow of financial impact. And my husband and I, if we didn't prepare, that would later on affect our children."

Greg Lindsay: For Roya Camp, a healthcare communications executive, the trigger to invest was an overheard conversation early in her career — one that put her on a path to retirement.

Roya Camp: This would have been my first adult job, I would say, and I was out of school and about a year—I think the regulation at that time was you had to wait a year before you could become part of a 401k. And the company that I was working for at that time offered a 401k and a had a healthy match. And I hadn't given it much thought and there was a co-worker who basically cast it as free money, told me that the company would give me free money if I agreed with some of mine into savings. And I think I was compelled by that thought, just captured by the idea that they would give me extra money. Obviously, I was getting a paycheck, but they would give me free money. And I stuck with it. And literally, that is the only reason I am where I am today. I give him all the credit for having gotten me to sort of a safe space when it comes to retirement. I just kept going. It wasn't easy. It was not easy for a long time, for many months, for many years. But it worked and he was right. And I credit him as often as I can. So that was the turning point for me very early on, thank God, because I get the power of compounding and being patient and all that stuff. I wouldn't have done it otherwise.

Greg Lindsay: And sometimes, it's not a single trigger moment, but prompts.

Jeff Hood: I wouldn't say there was a decisive moment, but I graduated from college and so I was starting to get a paycheck.

Greg Lindsay: That's Jeff Hood. He's retired now and started investing in his 20s.

Jeff Hood: And I had some older colleagues, you know, advised me to save for my future. And then a parent of a close friend, he was an investor, and he would always ask me if I followed the fundamentals or the technicals, and just kind of as a joke, you know. So you start investigating on your own and trying to just learn more and more. Did some research at a public library and Money Magazine, this is in my early 20s, just to kind of understand what options were out there. And so, not really a trigger moment, other than if you would say, you know, I started to get a weekly paycheck, and, and then having colleagues, coworkers, you know, friends and family members, telling me that I should start investing for my future. And I think every young person out there really needs to have, you know, that mentor, or a trusted friend, family member, coworker, who can help guide them into, you know, making investment choices, and, you know, just kind of getting started is really the important part.

Greg Lindsay: What's striking in Roya Camp's and Jeff Hood's cases is the importance of personal connections and trust. They didn't seek out advice — and in the case of Roya, wasn't even thinking of investing — but a colleague or personal connection's chance words changed their lives forever. A generation later, younger investors like Jen are actively turning to their peers for advice. Nearly three-quarters of Americans[1] turn to social media for help with investing. Jen says:

Jen Mayer: One of the first places I went was a group for women entrepreneurs. At that point, I didn't know the difference between a fiduciary versus a commissions-based salesperson in the whole financial industry landscape. The research that I did just opened up the financial landscape for myself. And from there, I was able to continue my research and education and begin to craft: what is my strategy, what is my approach, what are my values when it comes to investing? So that experience is what opened up the world to me to navigate and figure out what worked best for myself and my family.

Greg Lindsay: But "doing your own research" has limits. As we heard in the second episode, half of respondents said they were worried about finding trustworthy advice. So where do you look?

Jeff Hood: I do belong to the American Association of Individual Investors, but it's not really for the stock picks, it's more for the research reports. And, you know, they really do emphasize the long-term approach to investing. And so, you know, just reading that just kind of reinforces, you know, some of the decisions I've made along the years. And just my point of view is that this is, you know, investing for the long haul, even though, you know, now I'm retired, I still, I still believe I have enough years for there to be a long haul.

Greg Lindsay: Jeff Hood was a public official in California for a dozen years, and before that, he was a business journalist for twenty-five. So as you might expect, he likes to do the reading. So does Roya Camp.

Roya Camp: Yeah, I wouldn't say I'm any good at all at this. I will say I do a heck of a lot of research. I read pretty widely. I have shelves of classic financial books. Mostly the classics—none of the get-rich-quick-scheme type books.

1 https://www.pewresearch.org/internet/fact-sheet/social-media/

Greg Lindsay: Listening to one's peers or reading the classics is one thing. But in order to take someone's advice, you have to trust the advice. For Amanda Levis, behavioral economist at Vanguard, increased transparency in the market means doing your due diligence is easier now.

Amanda Levis: I think there are a couple of different forces that are pushing the financial industry in the direction of greater transparency. One is investors' sophistication. Although having so much information available at our fingertips does potentially have perverse effects and can make it difficult for us to make choices. The upside is, it's now really easy to inform people about things they would have otherwise had no idea about, right? So, you know, even 20 years ago, if I were interested in knowing whether or not to trust a particular rating, or whether there's an alternative side to an argument that I hadn't heard, it would have been really hard for me to get that information. But now, I can read 50 blogs about, like, breaking down a particular ESG rating, for instance, and come to my own conclusions afterwards.

Greg Lindsay: But despite the increased transparency – or perhaps because of it — asking an expert to pare those variables down can make all the difference, regardless if you're starting out or a seasoned investor. As Jeff Hood notes, you can't predict the markets, but you can ask for help.

Jeff Hood: You know, I wish I could have thrown all my money into Microsoft, you know, 30 years ago and Amazon 25 years ago, but no one can do that and figure it out at that time. So I think, ask what is it that you want to achieve with the rest of your life? And do you want to retire at, you know, at 50? 60? Do you want to work forever? Do you want to develop your own business? But I think, unless you have that goal set early on, it might take you a lot of time to finally figure it out, what it is you're trying to achieve financially.

Greg Lindsay: That's where an advisor comes in… literally. Ryan Barrows is head of registered investment advisors channel at Vanguard, and he agrees starting with goals is critical – and one of the places where he and his peers can best help advisors support their clients.

Ryan Barrows: And the other thing I would add that I think an advisor really really does is they help you anchor to like your big goals. Your goal is not the number that shows up when you log into your account. Your goal is, "I want to be able to retire at this age and I want to be able to afford to see my grandkids." Your goal is, "I want to be able to pay for my child to go to college," and your advisor can say, "You're still okay to hit those goals." And that allows you to worry a bit less about the number you see when you log into the account.

Yeah, I think the point on talking about it in advance is such an important one. You know, if I know I'm going to have to turn the television off for my seven-year-old daughter, telling her that I'm going to turn the television off in 30 minutes, it's a lot better than just going in and turning the television off and then trying to have a conversation about that in the moment. So I think that's a hugely important role for the advisor is they help you sort of, you know, play the game before the game, if that makes sense.

Greg Lindsay: Beyond setting goals, the right advice can function like the Investor's Serenity Prayer: Please grant me the focus to change the things within my control.

Janelle McDonald: One of the things I would say is focus on what you can control. If you're able to meet your goals through actions that you can control, actions that you can take, you're going to feel more confident in your ability to get there. And a good financial advisor will help you understand those levers.

Greg Lindsay: That's Janelle McDonald, head of Strategy & Practice Management for Personal Advisor Services at Vanguard.

Janelle McDonald: Folks can get really hung up on where the markets are going. Well, you can't predict the markets, right? The cost you agree to—that's guaranteed. Taxes are guaranteed, right? So you want to have knowledge of those things and have a good strategy and approach for that.

Greg Lindsay: It's at those moments of peak volatility — in the markets as well as life — that having a trusted advisor becomes key. An investor who keeps their head when others are losing theirs is one who will come out ahead — if they can keep their emotions in check, that is. Roya Camp:

Roya Camp: So right now, we're in a period of volatility. We've been in periods of volatility before—I get that, I watch it. I'm not going to lie to you, I look every day. I get a like a weird little, like, chills, or thrill from the fact that it's like, as volatile as it is. It's like being on a roller coaster. Because I don't need that money, because I have set up emergency funds and things like this, I can afford to take a cheap thrill, but I would not touch it. I will not touch it. I won't touch it. It's going to do what it does. So yeah, I have an emotional response, but it doesn't mean I act on them.

Greg Lindsay: That holds as true when times are good as they are when times are bad. Jeff Hood again:

Jeff Hood: Well, you know, whether the market's going up or going down, this is when it really is most important, I think, to you know, to have an unemotional approach. You need to have that plan. And then despite that, you know, the market's direction, whether it's up or down, you know, sticking to that plan—it's the blueprint or, you know, roadmap that you can follow. And I think, if you can stick to that, and keep the emotion out of it, you'll be more successful. You know, it's when the market's going down, it's tempting to sell and just get out and just figure I can't take this anymore. But then, you know, you do, you know, some research and you see that, you know, after six months of a big downturn, a year, two years, things do get better, you know, over time. Or, you know, likewise, if the market is going up really high and you have, you know, high valuations, it's tempting to just say, you know, I gotta jump in cuz of the fear of missing out. That's a big part of it. But it's a temptation. And I think that having that blueprint or roadmap to determine what your asset allocation is, what is your risk tolerance, and having that ahead of time, allows you to navigate those times where, you know, when the market is tanking or the market is screaming. You know, going one way or the other. Sticking to that blueprint and following that is really the key.

Greg Lindsay: For Janelle, helping make sense of these emotionally charged situations is one of the key benefits of advice:

Janelle McDonald: Professional advisors can help to be an emotional circuit breaker. So, how is that? How do we think about that? So you'll hear me say often, investment is emotional. That's something that we certainly recognize. And say you're thinking about rebalancing. Well, that's a hard thing to do because, inherently, if you're rebalancing your portfolio, you're selling your winners to buy your losers. Who wants to do that? It doesn't make a whole lot of sense. And if you take that as an example, all of the behaviors, all the decisions and actions you kind of need to take along the process, a number of them can feel a bit like distractions or noise, right? And advice can come in, whether it's in the form of sort of a pool product or whether it's in the form of a financial advisor you're interacting with, or even a digital robo advisor, it can take away a lot of those behaviors and those activities that you have to do and just make it push-button easy for you to stick with those aspects of your plan. So it can very much be an emotional circuit breaker because when you're running around and, you know, your hair's on fire, right? Either you're in a robo advisor product that is making the decisions and rebalancing your portfolio for you so you don't actually have to pull the trigger and do it yourself or, you know, you may have an advisor that you can call up and can kind of talk you off the cliff, if you will, and remind you, "Hey, Ryan, we talked about this, remember? We said we're gonna put this plan together. We're gonna revisit it periodically. And we're gonna stay the course. And we talked through the simulations and the scenarios that we ran and why these situations are already covered in our plan and really help you to stick with it and make good decisions."

Greg Lindsay: The right advice can help you cut losses and stay unemotional while sticking to your overall goals. As Bartlett Wealth Management's Holly Mazzocca says:

Holly Mazzocca: what we see is that advisors who are growing their practices are those who are providing this holistic wealth management advice. It's not just a straight-line cash flow retirement plan anymore. Clients are really craving answers to extremely complex questions. And many of these questions don't have a simple right or wrong answer. So as an advisor, it's really our duty to craft a strong financial plan that allows the client to pivot along the way.

Greg Lindsay: To make a long episode short: everyone deserves advice and everyone is a good candidate for advice; not just because the landscape of choice is so different, but also because of the benefits advice can accrue. Here's Holly again:

Holly Mazzocca: Over the last five years, we've seen a sizable uptick in the number of investors who are seeking financial advice. It's really going much beyond investments at this point. The world of investments has become very democratized thanks to low fund cost options, low or no commissions and new electronic trading platforms. So it's not so much about having access to investments, but it's really about partnering with a financial advisor to help you navigate the complete world of wealth management because the entire landscape has become so much more complex. And the best plans really start well before the traditional retirement date. They really go very deep because the next generation of clients isn't going to have just one static retirement date, you're going to have an evolution of how your career changes over time and how your financial needs change over that time period. In summary, it's a very complex world, and people are realizing more and more that they want an advisor to help them navigate it.

Greg Lindsay: And that is an appropriate acknowledgement on which to end the series. I'd like to thank our interviewees in today's conversation - Chelsea Brennan, Roya Camp, Jeff Hood, Jen Mayer, and Holly Mazzocca, along with Vanguard experts Ryan Barrows, Amanda Levis and Janelle McDonald. Thank you to all of those who joined us in episodes 1 and 2 as well.

END OF PODCAST