THE EMPOWERED INVESTOR

TULETT, MATTHEWS & ASSOCIATES

Episode 11: Lessons for the Long-Term / A Tale of Two Decades

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Keith: Welcome to episode 11 of the Empowered Investor. My name is Keith Matthews, and I'm joined by my co-host Marcelo Taboada for today's episode. In today's show, we're going to talk about current market conditions. We're at the end of August right now; markets have rebounded from the March lows. We're going to explore what stocks and what sectors are hot and what sectors or stocks are not. We're also going to discuss the implications and how investors may choose to move forward. So Marcelo, as we just mentioned in the brief intro, we're in the sort of, I don't want to know if it's the middle of the pandemic, the fourth inning, the second inning, but we are in a pandemic. What are the market conditions like right now?

Marcelo: Yeah, it's tough to say where we are in the pandemic, but I do think for the markets, August definitely, markets have bounced back. We're seeing some nice rebound numbers, which I think clients and investors are happy to hear. And the trend right now, what we're hearing the most, is that mega stocks are having huge rallies. Many other stocks are not doing so well, but you have the Tesla’s, the Microsoft’s, the Apple’s, the Google’s—they're killing it right now. And that's what we're dealing with.

Keith: When you're talking mega stocks, you're really talking mega tech stocks.

Marcelo: Yes, correct. Yeah, the technology is really pushed forward. A lot of tech stocks are at all-time highs, and a lot of the rest of the stock market is still trying to get back to all-time highs, and they may still be 5, 10, 15, or maybe 20 percent lower. A lot of people question the idea of why the market is so high when we're seeing, like, in the middle of the pandemic, but no, that's a whole different show, but it's definitely because it's forward-looking and it's anticipating different things.

Keith: Yeah. So what we're going to try to do in today's show is really talk about the now, like we're right in the middle of summer at the end of summer. We'll talk about stock prices. We'll talk about short-term stock returns. And then we're going to pause and reflect back in time and see how stocks and these different asset classes have performed over multiple decades because there's some amazing concepts, lessons, and ideas that we can pick up from that, which will help investors go forward from today.

Marcelo: And I think people will be surprised. Keith, when we started talking about this in the office, remember you asked me the question about long-term returns, and we listed a few, and you caught me off guard. So I got out in public that I was wrong with my guess, but so that'll be fun later on in the show when we cover those returns.

Keith: Yeah, let's jump into that, Marcelo. I think that's a great point. Let's jump into one-year rankings as of June 30, 2020. Now, we've got five different types of investments we're going to review. We're going to review the one years, and then a little bit later, we're going to review the 20 years. But go for it. What are the one years?

Marcelo: So for the one year, I'll start with the lowest. The worst performer was U.S. small value. That's an asset class that was minus 14.45%. Then we had Canadian Residential Home Prices returned 5.13%, so positive. Then we have the FTSE Canadian Bond Universe, which represents Canadian bonds. That's about 7.88% return. Then we have the S&P 500, which is the 500 biggest companies in the U.S. That returned 11.45%, which is amazing. And then by far, the best performance was by the NASDAQ, which is a huge representation of tech companies that returned 30.95%.

Keith: So now we're going from June of 2019 to June of 2020. So that is also living through the market declines of March and the recoveries from April on. For the benefit of our listeners, we chose five very different benchmarks, one of which we really wanted to add in there was Canadian home prices because everybody is aware of how their homes typically have done. They follow it. And we'll talk a little bit about how that benchmark is created, but we wanted to throw that one in. So we've really got these out-of-favor benchmarks, which the most out-of-favor benchmark right now in this little discussion was small company stocks with a value bias. So that clearly has lagged the other types of companies. And then we've got bonds, which are probably considered the most boring financial instrument you can own, but we'll talk about that in a bit. And then we've got home prices. And then we've chosen two benchmarks that have a heavy reliance on technology. Even the S&P 500, the top five, six positions are 25% of the benchmark. What are we seeing in the trends right now? What's going on right now in the last six months? Why do we see this massive divergence of these returns between small company stocks and mega tech stocks, Marcelo? What's going on?

Marcelo: Yeah, obviously everybody knows the coronavirus has accentuated a lot of trends that were already there. For example, one is the social distancing. So working from home definitely was becoming big, and then the pandemic just gave it that little push to, and that's definitely pushed some of the technology stocks. With a lot of people working from home, then all the social distance, you can include all the social distancing there, like we used to have friends over to play this game called Settlers of Catan, and now we do it online via Zoom. It's changed the way we interact with people. It's changed the way we interact with friends. So that's a big trend. Then we have all the technology. People have at their fingertips the ability to buy and sell stocks, not even a full stock. People can buy fractional shares. Now with this app called Robinhood, it's been in the news. It's very famous, and it's very crazy. I've seen how the app works and how easy it is to trade. It almost feels like a game full of notifications and prompts. It's very scary. Very scary.

Keith: Robinhood isn't the only trading platform that allows fractional. So let's just define what fractional means. What is fractional trading or buying a fractional unit?

Marcelo: Yeah, it's for example, if you want to buy a Tesla share, which is north of a thousand dollars. Obviously, if I want to play with some money, I may not necessarily feel comfortable buying one share because it's very expensive. But if I'm able to buy fractional shares, I could buy 0.22% of a Tesla share, which may represent like $200, right? So that's what fractional shares are.

Keith: Yeah. And so fractional shares, on the positive side, have allowed smaller investors to be able to participate and buy shares of expensive stocks. When I say expensive stocks, and I'm not talking stocks that trade on price earnings of valuation expensive. I'm talking about stocks that have a high absolute cost. So an Amazon that's trading at around $3,000, it's hard for somebody who has a $5,000 portfolio to put $3,000 in one stock. So they can go in and they can buy a partial unit. The same thing for a Shopify, the same thing for a Tesla. So this fractional concept, which technology has allowed it to occur, empowers lots of people to be able to buy small units.

Marcelo: I think it's a perfect marriage for the era we live now with social media, and this app just comes in and fits right in with giving millennials access, which is good. Like you said, 20 years ago, even 10 years ago, nobody would have been able to pick up their phone and buy fractional shares and get access to capital markets, which is a great thing, but it's creating a lot of effects that are negative as well. It's speculation and things we're going to talk about later, but definitely that's a trend of social distancing and this. And the last thing I think there's just, as humans, we're drawn to narratives. We're caught up by stories like the stories of Google, Facebook, Microsoft, Tesla. They have an aura around them and people get caught on. People get caught on.

Keith: Clearly, yes. Some of them are extremely profitable, and during this pandemic, they have demonstrated to investors that they can continue not only to generate profits but to increase profits. So many would argue that they're justified to some degree to get that type of attention. What you're talking about, the story stocks, might be stocks that aren't generating the profits but are just getting massive valuations. Which stock comes to mind, Marcelo, for you in the latter group? Shopify, Tesla. Why do those two stocks come to mind?

Marcelo: Honestly, it's a great story when you think about it. The story of Shopify is very interesting. The guy started selling snowboard equipment and it turned into this behemoth of a company. And now it's helping small business owners to get access to e-commerce, which is a great story when you think about it. And Tesla, just Elon Musk and all the aura around him, it's just insane, right? Everything he touched upon before getting to Tesla has turned into gold. And the guy has these crazy visions about space and artificial intelligence. So there are great stories, to be honest with you. But I think people have a hard time separating the story from the actual numbers. And that's a fine line. That's a very fine line.

Keith: The truth of the matter is we're really not going to know for another five to 10 years because both of those companies you've mentioned, they're starting to generate profits, but their profits are nowhere near as large as perhaps valuations suggest. But people are banking on the future. Whereas there's the other mega-cap technology companies who are, in fact, generating significant profits based on the pandemic. But the pandemic isn't going to stick around forever. And this is one of the issues we're going to talk about as we evolve in this episode. So we just talked about things that are hot. So what's hot? Technology. What's not? Just about everything else. And then if you take companies, smaller cap companies, or if you take value companies, those are definitely not hot right now. But we'll have a chance to look at this sort of how things have evolved in the last few decades.

Marcelo: Absolutely. You mentioned decades. Keith, you've been an advisor for about 25 years. Tell me why we're looking at the last two decades, for example.

Keith: What I think is interesting is we're in a pandemic right now. We've got these major changes going on in the stock market. Some stocks are booming, others are floundering. We've seen this before. We've seen different periods where stocks are booming and other stocks are floundering. The double-O was a very interesting period. So the year 2000, we had just finished five, six, seven years of something that I won't say is similar, but technology stocks were on a tear, and everything else wasn't. 2010, it was the opposite. Technology stocks—you couldn't get anybody to talk about technology stocks. And all people were talking about around that period was resource, energy, and gold. Usually, we have these big, massive cycles. What I like to do is look at 20-year numbers right now. It'll help us understand how these cycles have worked in the past.

Marcelo: Yeah, it's funny because you see tech, resource stocks, and those have been like two roller coasters. But the one that's been slowly creeping in and getting into the zeitgeist of what investors have been talking about is housing, right? Which hasn't spiked but it's come up slowly and become one of these big themes in people's minds. But we'll talk about the 20-year numbers. So again, you surprised me with the question, especially when we were talking about the genesis of this episode, and I failed miserably, by the way. So if you are surprised, that's a good thing. So the 20-year numbers are the following, Keith. So I'll start from the bottom.

Keith: But hang on a second. We're looking at the same benchmarks that we talked about. For the benefit of the listeners, I had asked Marcelo to rank the returns in the last 20 years. And of course, Marcelo, not of course, but there were a bit of recency fits in, and we think that technology stocks must have done really well. So what are the returns in the last 20 years?

Marcelo: So I'll start from the bottom, and this will surprise people, that actually the worst performer in the last 20 years was tech companies. So the NASDAQ returned 4.32%. The second worst was the S&P 500, returning 5.46% for the 20-year period. Canadian bonds were smack in the middle.

Keith: Hang on. You're telling me that Canadian bonds beat the S&P 500 and the NASDAQ, Marcelo, in the last 20 years?

Marcelo: Yes. And I'm glad you put emphasis on that because it is a huge deal.

Keith: And that's to June 30th?

Marcelo: Yeah. So Canadian bonds returned 5.61%. Then the second-best performer was Canadian residential home prices. That returned 6.33%. I'm not surprised about that one, by the way. And the top performer was U.S. small value companies. So that returned 7.19%, by far being the best performer of the 20-year period we discussed.

Keith: Yeah, so these are all annualized compound returns over 20 years, correct? It's interesting to think about compound returns. I often hear people say things like on their home prices, for example, "My house has doubled since I purchased it. What an absolutely amazing, incredible investment." And yes, Canadian real estate for the last 20 years has, in fact, been that. I would then often say, "What do you think the return is?" "I don't know, but it's really good. I'm really happy with it." The truth of the matter is, though, when you take a starting value, you take an ending value, you add it over the number of years you're holding the period. Often, the compound returns are quite a bit lower than what a person may think in their head.

Marcelo: Yes.

Keith: So that investor might have said, "I think my home is up 10 or 12 percent a year," when the reality of it is, it might have been up five or six percent. And what's interesting about the home prices—these are gross returns. So really, with a homeowner, the return, you would have to take away some of the costs associated with managing that property, whether it's maintenance, whether it's property taxes, and that might add up to about 2% a year. So home returns over the last 20 years have been around six, but they're probably closer to four, which is still better than inflation. It is still much stronger than long-term historic returns, but suffice it to say, those 20-year returns are a bit shocking because you would think that, my God, it has to be NASDAQ that's got the best returns.

Marcelo: It's crazy. I was impressed. I was surprised. I was surprised. I'm sure you were too. You were digging the numbers, right?

Keith: You know what? I was surprised, but at the same time, I knew the story. I knew that from 2000 to 2010, we were in that lost decade where you bought stocks, you bought the NASDAQ. Why? Because I was the owner of S&P 500 for clients. You bought the S&P 500 in the year 2000 at 1500 with a dollar 50, and 10 years later, 2010, a Canadian was still down when you convert the currency 50%. That's not a pleasant experience. Owning stocks for an entire decade and still being down 50%.

Marcelo: Yeah, it's crazy. So we're going to speak to each asset class a little bit. Marcelo, we're going to try this out. You're going to cover a couple of them and walk through the history in the last 20 years. I'm going to cover a couple of them. The goal of today's episode is really to shed some light in terms of, let's not get caught up in the short-term returns. Let's build diversified portfolios long-term, and there's a reason for it. Okay, so you're going to cover off the NASDAQ, the S&P 500, and home prices.

Marcelo: And you were a bond trader, so it's natural that you covered the bonds and then U.S. small value. I think you can speak to that pretty easily. Okay, the NASDAQ, for listeners, it's a heavily tilted towards information technology index, and it holds a lot of stocks. It holds about 2500 stocks, but about 50% of it is technology. It's probably the best gauge of what the technology industry is doing. So it's listed on the NASDAQ exchange, and then when you're looking at what the technology is doing, this is the one that you want to be looking at. So if you look at it in the last 20 years, in the year 2000, the level of the index, which is just an aggregate number of the performance of everything underlying the index, it was about 4267. So 4267. Guess what the level was in 2010?

Keith: I would have said probably my gut feeling is somewhere around 2, 2000, 2500.

Marcelo: Close. It was 1741. So that's down significantly.

Keith: Again, now remember, this 20-year period is from the last time technology was at an all-time high around 2000. But Marcelo, from 1997 to the year 2000, you had Microsoft on fire. You had Intel on fire. You had Qualcomm. You had Cisco. You had all these companies, and everybody said, we're about to go into this incredible technology world where you only have to be in technology stocks, and that's what it was. So the market had run up until 2000, and then from 2000 on, which is so much the case when you buy stocks or asset classes that have had these massive run-ups. Chances are, your next decade is a tough one for returns if you're in that class. So the problem is, investors buy at the high, and then they're stuck with these assets that are at all-time highs, and they don't have a great decade after.

Marcelo: It's interesting because after 2010, obviously, technology has become—it's all we talk about now. Just to give you an example, Toyota is the company that sells the most cars in the world. They sold 10.7 million cars in 2019. Tesla sold about 367,000 cars. That's significantly less. Guess what the market cap or the valuation of the company is for Toyota and what it is for Tesla?

Keith: I don't know the exact numbers, but I know that Tesla is now the highest valued company in the world.

Marcelo: So Tesla's valued at 289 billion. Toyota's valued at 192 billion. There's this gauge about earnings. So the price-to-earnings ratio is essentially if it's three, it means that for every extra dollar of earning, you need to pay three. Tesla has a price-to-earnings ratio of 833. Toyota has a price-to-earnings ratio of 8.33. That is insane. And it's just a sign of the times, right? Of the types of stocks that we're seeing now.

Keith: Yeah, people are basically latching on and saying there's a concept here, and Tesla has it. Tesla's figured out the electric car puzzle, and they're going to bring the electric car to everybody in the world. Time will tell, but we've seen this before. We've seen this before where companies have all of a sudden massive run-ups, and then they don't have the decade that people expect. And investors, you do pay the price.

Marcelo: When you look at those numbers, for the expectations, if you're buying right now, geez, I just don't know. If the expectations don't even come even close, it's going to end up in huge disappointment. But again, time will tell.

Keith: But your NASDAQ story is an interesting one because if you bought in January of 2000—let me just do some quick math here. 4267 times 1.5 for the currency. You were at 6400 for a Canadian investor, and then 1741—basically, you're flat for currency there. So you buy 6400 minus 1741. You're down 4659 points divided by 6400. You lost as a Canadian investor. If you bought the NASDAQ in the year 2000 and you held onto those stocks for 10 years. Now, most people would say that's a long period of time. I expect a positive return. You're down 73% after 10 years.

Marcelo: Oh my God.

Keith: Yeah, it's not what you want as an investor for sure.

Marcelo: That was the real-life story, right? So that's why now when we add the last decade, and really it's been the last five years that the NASDAQ is on fire. Those five years have dug you out of the hole, have moved you forward. This is if you can hold on to this investment for 15 years. So you had to hold on during the drought for over 10 years, probably get to 15 years to break even. And then the last five years, you've been on fire, and the returns are 4%.

Keith: Microsoft went through the same thing. They started making crazy money in the last four or five years, but they got hammered in the 2000s. And from the 2000s till the 2014-2015, it was a horrible stock to have. I doubt that a lot of people stuck to it and kept their patience for that long. But anyways, okay, the S&P 500 is probably the best gauge of the U.S. stock market. It's the 500 largest stocks by market capitalization, which is the number of shares times the price of the stock. And this is crazy to know because there are 500 stocks, and about five companies make up 23.3% of the whole index. That's Microsoft, Google, Facebook, Amazon, and Apple. So again, the S&P 500 is not the best gauge for technology, but it's creeping into the way these companies and the huge divergence we're seeing between technology and other sectors. Now, when you look at the 2000, the S&P 500 went also through the lost decade. So in the 2000s, the level of the S&P 500, the level of the index was 1366. If you fast forward that to 2010, the level was 1074, so 1074. So again, we got a lost decade. I don't know if it's as bad as the NASDAQ, but it's probably around a 25% decline there.

Keith: No, Marcelo, look, it's 1366 times 1.5. We're converting for a Canadian. So a Canadian bought at 2049, and then it's flat 1074. It's not as bad as the NASDAQ, but you're dealing with close to a 50% decline.

Marcelo: Wow.

Keith: So again, let's imagine this. You're an investor. You buy the S&P 500 in the year 2000. As a Canadian, you convert your money, you buy the S&P 500, you wait 10 years. In 2010, you're just bouncing out of the 2008-2009 credit crisis. You're down 50% after 10 years. Whereas at that particular point in time, what you're looking at is you say, "Boy, all my friends that are invested in resource stocks and commodities and these boring old-fashioned companies, their returns are huge." So you're sitting back almost doing the reverse of what's going on today. Now, we're not suggesting that things are going to reverse back and do things and that you should be not owning technology stocks and that you should be chasing other things or investing in other things. But we are saying that we can learn from these moments in time.

Marcelo: Oh yeah. I've heard people countless times, my friends, even clients, saying, "Oh, why don't we put everything in the U.S.? It's done so well." Just go back in history and look at the last decade. People don't know about that, right? If they knew, they wouldn't say things like that because as we can get great returns, we can also go through these horrible periods—10-year negative returns. It's not very often that happens, by the way.

Keith: No, it's not often it happens, but it does happen. And the investors need to understand that if you invest in risky assets like stocks, even like real estate, we haven't seen it in over two decades, two and a half decades in Canada, but real estate, when I was a bond trader in the early nineties, from '91 to '95, pension funds were not allowed to invest in real estate bonds. You couldn't go to them. They wouldn't buy it.

Marcelo: That's crazy.

Keith: They wouldn't buy it because at that point, they had just lived through the seventies, eighties, and early nineties, and you often lost money in real estate.

Marcelo: Wow. Now everybody wants to get their hands on a REIT, right? The real estate investment trust.

Keith: Marcelo, why don't we move forward with the Teranet Housing Index? What's that all about?

Marcelo: Yeah, the Teranet Index is a nice index put together by Teranet and National Bank, and it tracks single-family homes. They have a very solid methodology. Essentially, a house has to be sold twice to be recorded in the index. It tracks 11 cities, which includes the major cities in Canada—Montreal, Toronto, Ottawa, Vancouver. They track the single-family home to make sure that people have a gauge of how the market's doing because, you know, it's very hard to track home prices, but they've done a nice job. I think it's the most legitimate index out there in Canada. And that's all I have to say about that.

Keith: House prices really, we've been in a bull market now in Canada, I would say, since the mid-'90s, so it's almost 25 years. Some cities, obviously Vancouver, Toronto is really the outlier. We've got home prices up. Probably, that's the best two decades of the last 100 years. We don't know how this is going to turn out, but it is extraordinarily expensive for the younger generation. The implications are it's really tough for the younger generation to get in. The implications are high debt levels for Canadians to be able to afford this. And then we're just stating a fact that their returns over 20 years have been extremely low. About 6%, and this is the Teranet Index across 11 cities. You've got to take away a couple of percentage points of carrying costs. That's not even including the mortgage, and so you're probably around 4%. It's expensive to have a house.

Marcelo: I'm living it right now, Keith.

Keith: All right, let's dig into bonds. So the story about bonds in the last two decades, really, it goes longer, is that bonds from the '40s to the '70s kind of were always very low. Inflation in the '70s spiked fixed-income rates up until a high in the early '80s, around '81. And ever since 1981, interest rates have been coming down. So in 1981, you had 10-year U.S. Treasuries at about 15.5%, Canada 10 years were similar. So essentially what's happened in the last 40 years is interest rates have gone from super high levels, 15, 16%, to 0.6 of 1%. That's an incredible decrease in yields. Now, that produces capital gains within a bond, and so it creates appreciation in fixed income. That essentially has generated surprisingly strong returns, relatively speaking.

Marcelo: Oh yeah. By the way, you mentioned inflation. That's another thing that I concern a lot about. If you read economic history, inflation has been present in the '70s. If you go even back in years, in different countries like Germany and Argentina, these are people who have lived with inflation. But I think Canadians, my generation, we've never lived through a period of inflation. We can leave that for another episode, but that's something that is concerning.

Keith: Yeah. And listen, one of the things, if you were to go back to around the year 2000 and if we were to ask or propose or suggest, listen, we can predict the future. We're going to go through decent levels of growth. Technology is going to change the world. We're going to have massive levels of globalization. Countries like China are going to enter as a dominant player. Do you want to invest in stocks or bonds? If I would ask that question to a hundred people, I bet you 90-95% would say, for sure, stocks.

Marcelo: A hundred percent. Yeah.

Keith: Yeah. For sure. And ironically, bonds have done extremely well from a return perspective. Now, the challenge with bonds, at some point, the juice is out of the lemon, and there's going to be very difficult times ahead to generate returns. Now, it's still got its purpose in a portfolio. When I started off as a bond trader, as an investor, you could buy a 9% bond with inflation at 3%. You could get 600 basis points of real—that's six full percentage points of real returns. So right now, you're not going to get real returns. You've got negative real returns. The other area that you asked me to just comment on are small company stocks. In particular, U.S. small company stocks. We're using this just as a gauge because clearly smaller company stocks have had a rougher ride during this pandemic. One would think, why invest in small company stocks? You invest in small company stocks diversified all the time. All the time, because you want higher returns, and it's built into the cost of capital of the companies. And investors want and expect a higher return when you invest in small companies. Now, we're not talking convenience stores and small family businesses. When we talk small companies, we're talking companies that have market caps of between 500 million and 2 billion. These are still publicly traded companies. So the great irony is those have, in fact, produced the greatest returns for investors, but just not in the last six months.

Marcelo: Yeah, it's an area that's definitely getting hammered. You hear a lot of experts writing articles about, is value dead? Is the small cap value premium dead? It is in the air now, and we'll see what happens. But it's definitely being—you look at the 20 years, it's been great for investors if you stayed invested in this area.

Keith: Absolutely. As we start to wrap up the show, we're going to be talking about maintaining diversification, having discipline, having patience, not chasing. These are themes that we put into the first five or six episodes. Marcelo, you did a great job with stories in all of those. Do you have a story for us today on staying the course or maintaining discipline or blocking out the noise?

Marcelo: Of course I do, Keith. I'm the nerd of the company. Of course, I have a story.

Keith: Let's put this political science degree to good use here.

Marcelo: This is true. This is true. Okay, so the best story that I could come up with for what we're talking about here is the story of Odysseus in the Odyssey. So the story goes like this: he was coming back from the Trojan War. It was a crazy war, a lot of violence. So he was going back to Ithaca, where he was going back to his beautiful wife, and she was expecting him. He's traveling with sailors in a ship, and in the story, there's this particular island, which I think historians agree that it's around the area of Messina in Italy. The story goes that the island was surrounded by sirens. And the sirens have a mythological aura to them. They have a story behind them. They're very seductive, and they have a big sex appeal in the mythological tradition. So the story goes like this: they have these songs that they sing to the sailors when they're passing by, and the sailors end up falling for it. They get almost hypnotized, and it ends in shipwreck. And the story is that the island is full of skulls and different bones from all the people who have died. So Odysseus was warned by a sage about the sirens on the island. So Odysseus, being very courageous, and he was always known to be a planner, as a person who organizes, very rational, he wanted to go through it and listen to the songs but not fall into the temptation. So he had all his sailors put wax in their ears and had them tie him to the mast of the ship and told them with strict orders, under no circumstance untie me even if I'm begging you. So the story is he goes through, the sirens start singing, he doesn't give in. The sailors are protected, and they go through, and he makes it back home. I think the moral of the story is, as an investor, you're going to hear a lot of siren songs, but it's about not giving in to the temptation because your portfolio may end up in shipwreck. Your finances can end up in shipwreck, and you don't want that at all.

Keith: What a brilliant story. So Marcelo, how old is that story?

Marcelo: Oh my God. The Odyssey is older than Christ.

Keith: So a couple thousand years, humans have been fighting against sirens and noises.

Marcelo: Yes, absolutely.

Keith: Wow, very telling. That's a great story for the Tale of Two Decades. When you asked me, Keith, think of a story. Like I said, okay, story. Okay. How am I going to figure it? Oh, I know. So I went back to something a little bit more modern, if you will. And it's the movie of the Gladiator.

Marcelo: Oh, I love that movie.

Keith: It's one particular scene, and I've used this reference before in the investment world, and I think it is applicable, but it's the scene in the Gladiator. It's called Barbarian Horde Battle Scene, where Maximus Aurelius, with 10 other people, is stuck in the middle of the gladiator arena. And then all of a sudden, they have to defend themselves against all these chariots that start coming out of different doors, different passages, and it's like sheer chaos.

Marcelo: Yeah, I remember that scene.

Keith: And Maximus quietly says to his group, and these are the words because I checked the video before the show, "Has anybody ever been in the army?" he says to the other 10 or 11 people. And then he makes a statement. He says, "You have a better chance of surviving if we work together." You remember that?

Marcelo: Yeah.

Keith: So then he continues to say, "We stay together, we survive." And then what happens, of course, is as these chariots are coming out, the gladiators don't know what to do, but they just heard Maximus Aurelius' suggestion and strategy. Some of them don't listen. And some of them, they take their emotions, and they just let it go. And those that went out on their own and let their emotions go, they get killed by the chariots. And the scene continues with all of a sudden the gladiators pulling together and forming a strategy, and they listen to Maximus. They slowly but surely congregate in the middle, and then they start to pick off the chariots. And then, of course, at the end, they defeat all these chariots. They defeat the chaos. They defeat the aggression, but they did it because they had a strategy. It's similar to the siren story in the sense that you're protecting yourself against your emotions, and you're not chasing something. I think those are two really nice stories.

Marcelo: Very good story.

Keith: Yeah. I think we're in this time right now where investors can chase. What do we say are the lessons learned in the past couple of decades and how we should react today? Marcelo, what's our advice for investors?

Marcelo: It's the investment philosophy. It's stick to it. Have something you understand. When you have an investment philosophy, you know what to expect during the good times and the bad times. I think we've been pretty steady saying those things. Then the investment policy statement is your contract. It's what ties you to the mast of the ship.

Keith: Like we said in the last episode, right? It's looking at the eye of the tiger, right? It's not turning your back and getting eaten by the tiger.

Marcelo: Yeah. The investment policy statement is huge. So even if you're a DIY, have one written document for yourself, and then the discipline. Stick to it. It's the best you can do.

Keith: Those are fantastic takeaways. The only thing I would add is prices do matter. And we have seen that time and time again, that when you buy securities at prices that are extremely elevated, at some point the elevation stops, and investors are dealt with lower returns from that asset class. So be careful in a whole technology stocks. Make sure that your portfolio is diversified, and that's the best way to move forward along with patience. So Marcelo, as we wrap up the show, the next show, Ruben is coming on board for about eight or nine episodes. And I can't tell you how much fun I've had with you as co-host on our first 11 episodes. What are your takeaways? What do you appreciate? What does podcasting mean to you?

Marcelo: It's funny because as I look back, I'm almost at the fifth year of my career here at Tulett Matthews. And if you would have told me five years ago that we would start a podcast and do all these things, I would have said, oh man, that sounds sick. It's crazy, but I've loved it. I've loved it. I think it's brought us together to our clients. It's definitely pushed me to be a better advisor, to be on the ball and know things. It's rekindled a passion I have for working with clients and supporting the principles that we support at the firm. And having those things aligned with your values are great things. So for me, it's been just another way to add value to our clients. And I think it's fair to say that we've both enjoyed it, our clients and ourselves.

Keith: Marcelo, I remember that first show that we did together, we highlighted, we discussed the fact that you showed up in Canada as an 18-year-old without a solid backing in English or French, and then went on and did your schooling, university, and 10 years later, you're with us. You've done a phenomenal job. Your stories have been fantastic. You're down to earth. I've learned so much from doing this with you. Kudos to you. Thanks for being on the first bunch of shows. Ruben's going to come on for the next bunch, and then you're going to come back, and heck, maybe each one of you will be doing these shows together, and I'll be out for a bit. But in the meantime, thank you so much, and everybody, we'll see you in a couple of weeks. Goodbye, everybody.

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