BARENAKED MONEY PODCAST: EPISODE 1

Bad Financial Advice

Colin White:

Welcome everybody to the first pilot episode of Barenaked Money, our attempt at putting together something in the form of a podcast that we hope you find interesting and useful thought. I thought I'd give you a little bit of background as to why we chose Barenaked, so we're going to tell you the whole story. So there's going to be no hidden corners, there's going to be nothing that we obfuscate. We're going to try to really shine a bright light on topics that we choose to talk about. It's a pretty topical thing right now, Josh. I mean, everybody's getting their information off this thing called Reddit. As a young guy who's getting all his information off the interweb, you must know all about that.

Josh Sheluk:

Yeah. I wouldn't say I know all about it, but you mentioned Reddit, and I think part of our focus today is going to be bad financial advice. What does it look like when you're getting bad financial advice? And of course, we're going to be a little bit biased on this as advice givers ourselves, but the Reddit thing has become extremely fascinating, especially over the last week. We've seen the whole GameStop story, which may have played out at this point. We're a week in. It's already played out.

Josh Sheluk:

Silver is the new thing. I don't know if you've heard that, but I watched a TikTok video. Yes, I did watch a TikTok video today, and it was a guy saying, "Silver is the next thing. Silver is going to be bigger than GameStop, so go out and buy silver." I think he suggested buying four ounces of silver, and every man, woman, and child in the United States should have four ounces of silver to make this happen. So a lot to unpack here with just this one. And when I look at the advice space today, especially when it comes to money, technology and social media have made it easier and easier to give financial advice and to receive financial advice, but at the same time, I would say that the quality of advice has gone down.

Colin White:

Yes. People take information, and they feel they've been given advice. And sometimes, there's a thin line between the two. But yeah, information absolutely is easier to get out there, and people are, all the time, using the microphone available to them to spread whatever they like. And if it's interesting, people will continue to share it. But no, I don't think it's as much advice as it is information is easier to get.

Josh Sheluk:

Yeah. And that's fair. So let's just unpack this Reddit thing to start, because it is absolutely crazy. A few weeks ago, the folks on Reddit, they banded together and said, "Well, GameStop, this is one of our favorite companies. We shop at GameStop all the time. There's a whole bunch of short sellers out there. Let's all bid up the stock. Let's start buying shares of GameStop." And with 4 million followers or something on this Wall Street Bets subreddit these days, that's a lot of buying power going after a company.

Josh Sheluk:

So despite the lack of success that GameStop has experienced over the last decade, if you have enough people throwing enough money at something, it's going to go up in value. Should it go up in value? I guess that's something for us as historians of the market to debate a little bit, and people that focus on the actual fundamental success of a business.

Josh Sheluk:

But the bottom line is, for a short period of time anyway, you can definitely inflate the value of stock. And I don't know if you could even really call this advice. Maybe there needs to be something a little bit more substantial. But there's certainly been people out there that have made money by investing in GameStop and other stocks like it that have a high amount of short interest from the forum of Reddit.

Colin White:

I think that's what the key is, Josh. There's people who have made some good money off this. There's a business model here. For me, everything is about the business model. I attended a seminar that was put on one time by a mathematician. Yes, yes. I'm that guy. I go listen to mathematicians talk. And before he started his presentation, people were peppering him with questions about becoming a millionaire, and he kind of offhandedly gave the acceptance.

Colin White:

"Well, that's easy. You want to become a millionaire? Give me a list of 64,000 names. You do up a newsletter. Half of them, you predict the market's going to go up. Half, you predict the market is going to go down. You were right on half of them, so you got 32,000. The second time you do the same thing. You keep dividing the list by two. After six newsletters, you've been right six times in a row to a thousand people." You send them a note saying, "Send me a thousand bucks, I'll keep sending you my newsletter, because my big super computer is going to keep predicting the markets. A thousand people send you a thousand bucks, you're a millionaire."

Colin White:

Now the problem is, as mathematically true as that is, it's illegal. It's called fraud. So, the business model behind these things, typically somewhere in the start, the first few people through the door now have a vested interest in turning this into something big. And the subreddit gives them a real happy audience, who can share things really easy and build the buzz. And so, the first people through the door on things like this stand to make a lot of money.

Colin White:

So, as much as it's being portrayed as it's just the people rising up against Wall Street, I think if we look closely at this, no, it's not necessarily that. It's a little bit more nefarious, and I think that when the SEC and those people get involved and look at it, they're going to have some opinions as to how these things got started and what was good or bad about them.

Josh Sheluk:

Yeah. One of the things that you brought up there that I think is super important is it's really hard to distinguish good advice from bad advice if all you're doing is looking at the results of that advice. Because like you said, if you put enough predictions out there, and look, there's thousands or millions of people that are commenting on markets these days, with predictions of this, and that, and the other thing, at some point, one of them is going to be right.

Josh Sheluk:

And at some point, a handful of them are going to be right multiple times in a row to make them look really, really smart. And then you start focusing on the results, focusing and following those supposedly really smart people, when really, they just got lucky for a little while. If you flip a coin enough times, you're going to get 10 heads in a row, as unlikely as it is. So that's just speaking to the luck that comes into play with investing. And you can't really focus just on the results when you're trying to look for this good advice.

Colin White:

Yeah. It's been described as the halo effect. Somebody makes money. "How did you do it?" "Well..." Then they tell the story about what they eat for breakfast. "Ooh, everybody should eat that for breakfast, because they made money." "And I exercise three times a week." "Ooh. If I want to make money, I need to exercise three times a week." I mean, there's this obsession with finding the shortcut or finding the secret. So you see somebody who's successful at something, by successful meaning they made money at something, and now it's, "Oh, they must be smart."

Colin White:

Easy. Sometimes, it is just dumb luck. And we see that in our world. We've taken a close look at some money managers who have a very successful track record, only to find out there's not a whole lot behind how they got there. Good for them. I'm glad for them and their family that they did well for themselves. But it's not always true that there's something really meaningful there that's going to make this a replicable thing. And again, the Reddit thing has gotten some traction, and it's got a good narrative, and it's getting some good coverage, and the early people in are doing really well with it. But again, it's not advice. It's information.

Josh Sheluk:

It's interesting because you see when it comes to finance, especially the same type of schemes come up over and over again throughout history. We've gone over this many, many times over the years that we've known each other, but I'm going to take you back to a period of time before my time. Our colleague, Steve, was talking about this when he was working at TD back in the late '80s, early '90s, on the discount brokerage side, the online brokerage.

Josh Sheluk:

He was telling me about this scheme, where every Friday there would be a prerecorded message put out by a BC company, and it would have three stock picks, three penny stocks to buy the following week. And him being on the trading desk at this online brokerage, every Monday, he would look at the activity and see these three stocks over, and over, and over again, they got bid up, a bunch of people putting in

orders, the price goes way up off the open on Monday morning, and then sure enough, shortly after, the price of the stock falls back. This is the classic pump and dump scheme, right, Colin?

Colin White:

Mm-hmm (affirmative). Well, I mean, that's why they used to refer to the BC Securities as Las Vegas North. I mean, it was the home of a lot of the penny stocks. And look, there's an argument to be made for penny stocks, and for startup businesses, and smaller companies. Absolutely. That's where businesses should start, and it should be a healthy ecosystem. But the problem is, is it's prone to being pushed around by pump and dump schemes, because the volumes are pretty slim, so it doesn't take a whole lot of interest to move these names around.

Colin White:

So again, when you have a bad actor get involved who manages to get a megaphone, now back in Steve's day, and we can start making fun of his age, when it had to be a phone line you had to call to get a recorded message. Now, it's just way easier just to fire that stuff out. The bigger problem is that the harm is not really immediate and of a large enough magnitude to slow people down. A good buddy of mine's got an expression. Nobody pretends to be an underwater welder. Well that's because if you pretend to be an underwater welder, then when you screw it up, it's going to be really apparent really quickly, and you're not going to want to do that again.

Colin White:

But in the world of the pump and dump scheme, it's just another idea. Or the Reddit thing, there's just always a new idea and it becomes a bit of a cult. Just, what's the next idea? All these people wanting to have a shortcut or want a secret, want to be on the inside. It's all about finding that one thing that's going to make it work. But Josh, is it one thing that really makes it work? When we sit down and have our meetings every week to talk about money management, are we looking for the one idea? Is that what we're looking for, he said, expectedly.

Josh Sheluk:

No. I mean, obviously, a lot more goes into it than that. And I think one of the things that you want to focus on when you're looking at advice or information is, what's the qualifications or the expertise of that source of advice? Is it somebody on TikTok, or somebody on Twitter who you don't really know, who, again, doesn't have really the ramifications of being wrong. What are the ramifications for that person of being wrong?

Josh Sheluk:

If you have no personal relationship with them, if they have no tied financial interest to giving you good advice, then that's a bit of a problem for me. So looking, again, at their expertise, credentials, that doesn't mean everything, but it certainly helps. Some of these people that post their one minute TikTok video, they really have no experience, or expertise, or vested interest in some of these predictions being right or wrong. So that's part of it.

Josh Sheluk:

You need to be able to look a little bit below the surface. Yeah, sure, maybe their results have been good for the last little while, or they've made a couple of right predictions, but is there some type of fundamental thought process that goes into making these suggestions, these recommendations, or else it's just the classic pump and dump. You pump something up, you get a whole bunch of interest in it, you're one of the first ones there. Once the price goes up, you bail, and everybody else is left holding the bag at the end of the day. And that's not fair to anybody, but that's the way that it's worked for a long period of time.

Colin White:

And the actual secret to financial success is diversification. It's not about finding the one good thing. It's about avoiding all the shit. So you want to make sure that you diversify yourself to avoid any big losses. The way math works, if I lose 50% of your money, I've got to make a hundred percent to break even. That's math. The downside, protection is far more important than capturing this one sweet thing. It's like, you only invested money in Amazon or Tesla, you could be a millionaire now. Shut up. It's not about finding the one company that's going to make you a millionaire. It's about having a strategy that can endure a global pandemic or worse.

Colin White:

You don't want to be really, really concentrated with your financial future. Diversification is key. It's boring. It's as boring as ducks eating bread, but it works, and it's safe, and it keeps you as safe as you possibly can be in the screwed up world that we're in. It's not marketable. I mean, if you've got graphics, and you've got a sound card, and you can bang the table, and you've got a funny hairdo, then you're going to get followers. And if you get followers, you're going to make money. And if you were the first one into an idea that you're floating out there, then you're going to do really well, as well.

Josh Sheluk:

Yeah. Just to go back to the diversification point. You're not trying to hit the home run. We can use the baseball analogy, right? If you hit a bunch of singles and doubles, you're going to do just fine. If you hit a bunch of home runs. Yeah, I mean, you're looking great, but eventually, you're going to strike out, and you're going to strike out more often. And when you strike out, it's not you walking back to the dugout with your head held low. It's, "Okay. My money is now zero. I struck out. I bought GameStop at 300. It's now worth 10. Uh-oh. Now what do I do?" You got to go earn that money back, because you're not going to hit the home runs on your investments like that. It's just not the prudent thing to do.

Colin White:

Well, that goes back to how people look at risks, when they come in to talk to us and say, "Hey, I want high risk, high return." It's like, "Well, no, no, no. Sometimes high risk means your money goes away." That's what high risk can mean. And again, our industry talks about risks very badly, the low, medium, or high. What does that mean? It's a very abstract concept.

Colin White:

And we take a look at things like this past year, where we're dealing with a global pandemic. It's what they would call a black swan event. So these events happen reliably, and if you actually take a look at

some of the math where we try to quantify risk, these are one in a billion opportunities, and they happen every couple of years. So the math is failing us a little bit, so getting too precise in how we want to do things and by not diversifying is where you can take some major risks.

Colin White:

The global economy has got a great track record of moving. It's survived World Wars, it's survived financial collapses, it's surviving pandemics. The global economy can move. If you start to get too cute with what specific pieces you should put all your money in, then you're opening yourself up to really catastrophic risk. And as you said, your money can go to zero.

Josh Sheluk:

And one of the things I think is important is when you're getting advice from the source, is to understand the business model of the source of that advice.

Colin White:

The other thing that we need to get out in the public, because again, we're bare naked, what's our business model here? So, we are here providing this podcast to our audience, which we hope is some of our clients who have a vested interest in us and want to hear our opinions on various things. Then we also have people who we'd liked to have come check us out and see if they like to, see if it results in a phone call, see if we can generate some business out of it. If 20% or 30% of the listeners are either existing clients or prospective clients, then that is fine by us, and that is our business model, and that's us being bare naked.

Josh Sheluk:

And so, this Reddit story leads into some of these free online trading platforms, and their business model is to get you to trade as much as possible. I think there are statistics out there that show a direct inverse correlation to the amount of trading relative to the success with your investing. So the more you trade, the less successful you are. And these online trading platforms, because this is how they make money, they want you to trade more and more.

Colin White:

So they're going to publish videos that talk about how great you are, how smart you are, how easy it is with our 10 hour program to teach you how to trade foreign exchange or how to trade options. They are going to do all kinds of things to make you feel very, very good about yourself, so that you feel confident, so that you go out there and you're very active, which is where they're going to make their money. Now, again, I'm not saying that it's all bad or all nefarious, but it might be a little bit optimistic. And I don't think all the risks are truly understood about doing things and taking this as your sole source of information.

Colin White:

Because look, the market needs two sides. Your good buddy there, James, one of the analysts with the firm, I mean, when he and I ever get into it and I start really going at him saying, "This is really stupid," he'll shrug his shoulders, and goes, "Well, the market needs two sides, right?" And it's like, "Oh, curse

you. You're right. All right. Yeah, you're right." So, I mean, we need to have room out there for all opinions, because again, a fully functioning market has people on both sides of all the trades.

Colin White:

Keep in mind, every trade means one person was buying, one person was selling. One person thought it was the right time to buy. The other person thought it was the right time to sell. In theory, they both can't be right. So again, we need to have a fully active and optimistic marketplace for it to function.

Josh Sheluk:

Yeah. And it's great to have different platforms with different goals and objectives that fit different client profiles. I think the thing is, when you have a bunch of bells and whistles going off when you place a trade on some of these platforms, it makes you feel good, makes you feel like you're at a casino and you just hit three sevens on the slot machine. That may not be in your best interest, because it's just encouraging you to do things that, history shows, data shows, not necessarily things that are the best practices for maximizing your wealth.

Colin White:

Now, having not ever played a slot machine, is three sevens good, Josh? You seem to know about this.

Josh Sheluk:

I couldn't tell you either. We'll need a guest speaker, I think, next time to bring that into... But that's my understanding, anyway.

Colin White:

In the interest of Barenaked, I just wanted to make sure we were all out there, that you and I really don't know what three sevens means, other than we've seen it in movies and everybody seems happy about it.

Josh Sheluk:

That's right. Yeah. I just know it looks like coins are piling out of the machine when something like that happens. But the other thing you've been really critical on, Colin, is the media and how it's very sensationalized and headline driven. This is a business model in and of itself, is it not?

Colin White:

It's about chasing eyeballs. So again, plunge and soar, two great words you can use to describe the stock market. If I got on an elevator and there was two buttons, and one said plunge and one said soar, I'd get off the elevator. I mean, it just means up and down, but they need to try to make it more sensational than the hurricane that just hit the Gulf Coast. They need to make it more sensational than the bad jobs report or the election that just happened in Europe.

Colin White:

They need to capture eyeballs, because, keep in mind, you're the product. You're not paying to be there. You are the product. Same as with Robinhood. You're not paying to trade. You are the product. So they're trying to attract you there and keep your attention as long as they can, so they can sell it and monetize it to advertisers. I think news isn't news, as much as it's entertainment.

Colin White:

If you take a look at the webpage, the landing page for any of the major news outlets, you're going to find some tragic story about some person who got marooned in a national park after 14 days and was found in their car, either dead or alive. That's tragic. News, I don't think that I'm better off having heard that story from a news perspective, because I'm sure that there was negotiations going on about the Brexit deal, which would influence my world in a far more positive way if I understood. But no, they caught my attention.

Colin White:

Every once in a while, I will get my attention caught, and I read about some dog that's doing a trick somewhere, and I'm going, "Stop it. This isn't why... I wanted to read something that was important to me. This isn't it, but damn, that's a cute dog." That's what they're trying to do, and they do it very, very well. And there's algorithms that are trying to feed you the stuff that attracts your attention. They know when you're scrolling down, how long you stay on part of the website. "Oh, we got to give them more of that. Quick. Throw some happy cats on them." Again, it's becoming more and more fine tuned, so you have to really concentrate on making sure that you're looking for and trying to consume more of a balanced picture.

Josh Sheluk:

So it's funny, you mentioned that thing about the national parks. And I got to pick on you for a second, because aren't you the same guy that runs from the car to the condo and vice versa, because you're scared about bears and the one in a million chance of getting attacked from a bear when you're out in BC?

Colin White:

But see, this is one of those things. If it does happen, that's catastrophic. I think I should be afraid of catastrophic things. And I don't think it's newsworthy. The Nelson Star is not there taking pictures of me running out to my car. "Ooh, look at the guy from Nova Scotia who doesn't know bears." Entertaining? Yes. Everybody gets a yuck, for sure. It's not news.

Josh Sheluk:

So your version of running from the grizzly bears is the same as what we're talking about, you should avoid GameStop and other stocks like that, that are boom or bust?

Colin White:

Absolutely. Absolutely. See, there's no downside. Me running from a perceived threat in the bear, I got some exercise. You could argue that as a win-win. If I'm going to spend money to avoid the bear... Okay. I did buy bear spray, but it wasn't that expensive.

Josh Sheluk:

Yeah. Some of the craziest stuff that I've heard from a media perspective recently is coming from Twitter, which should surprise nobody. Just stock market related, when Elon Musk, a few weeks ago, he tweeted out, "Use Signal." And at the time, he was referring to a messaging app, that is sort of a substitute for WhatsApp, and the stock, the shares of this company called Signal Communications or something like that, which was in no way related to this messaging app that Elon Musk was talking about, the shares shot up 100, 200, 300% on the day. And people are blindly following this advice. And again, it's not even advice. It's somebody's opinion. It's barely information. And your interpretation of it is actually wrong, in terms of how you're actually putting it to work.

Colin White:

And again, part of it is the difficulty in putting yourself out there and looking for good information, right? So anybody looking for a professional service, if I'm going out looking for a mechanic, I'm at the mercy of the person I walk into. So if I go out there and I have a bad experience a few times, back in my younger more adventurous days, I go pick up the Haynes Motor Guide, how to take my car apart and how to fix it myself, and I take it around to fixing it myself.

Colin White:

And I try that for a while, and I'm left by the side of the road a few times. You try not to do that. So it takes a little bit of effort to go out and seek good sources of information, and be patient, and have reasonable expectations. Those are all difficult things to do, so I understand where the market is for all of these shortcuts and all of these home runs. But at the end of the day, the slow and steady is going to win this race.

Colin White:

And finding a trusted source, that's not making outlandish claims, that you understand the business model, and that has some credentials and some history behind it, it's going to be boring. Money shouldn't be exciting. That's the other part of this. If you were excited by your money, you have a problem, because that's going to lead you to making emotional decisions. If you're excited, that means you can get over-confident, which also means you can get sad, which also means you can get... You should not have these kinds of emotions around your money and making money decisions, because it just leads to disaster.

Josh Sheluk:

Yeah. Another point of recommendation that we can make when looking for the advice is looking for advice that's conflict free, or where the person giving the advice has a tied or a vested interest in making sure that advice works out for you. If you go to your mechanic and they're fixing your brakes for you, and for the next 12 months, they're in your car every time you are, riding right along for you, I'm pretty sure they're going to fix those brakes properly. They're not going to half-ass anything. And that's what you want to do when you're looking for financial advice as well. There's something called a fiduciary. Fiduciary means that they're legally obligated to act in your best interest. And there's some areas of financial advice that do fall into that category, so that's a great spot to start looking.

Colin White:

And like you said, understanding the business model of your relationship. I mean, I can't emphasize that enough. Because time and time again, it just points to the glaring conflict that can be there. Look, I mean, I would point out that, again, our bias is, because we're making our living at it, that professional qualified advice is important. That's our bias. You can very easily tell that. You could also argue that the first victim of every great delusion is the perpetrator. So you could argue that we've convinced ourselves of this to such a level that we're out here making a living at it.

Colin White:

But I think it stands up to scrutiny. Again, having seen it over and over again, there's no shortcut. It's dealing with a group like ours, and there are quite a few of them across Canada you can deal with, people that have perspective, that have credentials, that are staying on top of things, have a product offering that spans the marketplace. It's not just one company or one kind of product. When you start to see those kinds of operations, and now this is sounding like a sales pitch, spend some time there. And again, it's not just us. There are many other groups out there like us that you can spend time with. And then, you should start to develop a sense of comfort.

Josh Sheluk:

You'll want a chef that eats their own cooking, right? If you went to a restaurant and you asked the chef, "Well, what do you recommend?" And they say, "Well, I don't eat any of my food. I just cook it for you." You're going to have some questions. So we try to eat our own cooking, try to invest in our own advice as much as possible. And that's part of where you get that conflict free advice, in that alignment of interests.

Colin White:

Well, Josh. It's been fun. I'm looking forward to getting some feedback as to the topics that people want us to dive into. Because again, we talked about a lot of stuff in the run of a week, and I'm not sure exactly what's most meaningful. We guess, and we try to put stuff together. But if there's some topic that you'd like to see us spend some more time on, absolutely, please forward it off to us, and we'll do our best. If it can make enough interesting content for it, we'll dig into it, for sure.

Josh Sheluk:

Yeah. And just, even if you don't have a topic for us, just ask us some questions, and we'll be happy to answer it on the podcast here.

Colin White:

Thanks for staying with it this long, and we're looking forward to your feedback, wherever you wish to provide it.

Josh Sheluk:

Always great talking to you, Colin. Appreciate your point of view as always, and will talk to you soon.

Colin White:

We've noticed something. It seems there are a lot of people who would rather try to figure out their lives with an online calculator than air your finances to a human. Stop doing that. You need to talk to someone who can help direct you, tell you where to start with what you've got to make the biggest impact on your future. You can't figure that out at doihaveenoughcash.com, but you can figure it out by chatting with us. Call us. It'll be okay. You'll see.

Speaker 3:

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