Richard:	00:01:46	Welcome everyone.
Adam:	00:01:47	I always love that final 30 seconds of that. Everyone gets to listen to that lovely music while we go through … that no one ever reads.
Richard:	00:01:57	Right, paying close attention to the disclaimers. But welcome everyone to another Riffs, ReSolve Riffs' episode.
Adam:	00:02:04	Happy Friday and cheers. Welcome, Preet.
Richard:	00:02:06	Happy Friday. Yeah.
Preet:	00:02:07	Thank you, guys. I'm sorry, I don't have alcohol with me. We'll pretend that there's Scotch in here.
Adam:	00:02:13	Yeah. So you say. It's okay, man. You're secret's safe with us.
Richard:	00:02:16	No one's the wiser. Before we do get started, let's just clear the air here. And make sure everyone knows this is for information, and hopefully entertainment purposes only. And none of this should be taken as investment advice. So Preet, welcome. Give us a little bit of your background, if you wouldn't mind for those that might not be familiar with you.
Preet:	00:02:36	Sure, yeah. I was just going to say when you say clear the air, I was like did you guys have a big fight in the last episode?
Richard:	00:02:43	Something like that.

Backgrounder

Preet:	00:02:45	Listen, it's my pleasure to be here. I've known Adam for a couple years and the rest of the guys at ReSolve. My background is I used to be an advisor. But if we go back a few careers before that, originally studied neuroscience, then went to auto racing, and then ended up in the finance industry. And I always found myself going back towards the neuroscience component, especially when I got to the racetrack, and then into the financial services, where I realized that everything really is about psychology over numbers. And so that's kind of been where I found myself playing in that sort of general sandbox. So, after I left, sort of the rat race, the nine to five, if there is such a thing in the financial services, I started working as a consultant. So, I work on a number of projects dealing with commercial applications of behavioral finance for wealth management firms. And I recently went back to school again to pursue some research looking at trying to quantify the value of financial advice across different

delivery channels, specifically in Canada, but there is some sort of global applicability.

Adam: 00:03:56 Nice. So, you're currently working on your PhD, right? And so what exactly is your thesis so that we can narrow the scope a little bit?

Preet: 00:04:05 Sure. Yeah. So, it's technically a DBA, which is a Doctorate of Business Administration. And …

Adam: 00:04:12 The other PhDs give you a hard time when you tried to say it was a PhD, is that why you had to qualify that?

Preet: 00:04:18 Pretty much. I mean, it's one of the things where it depends on where you are in the world. They're equivalent, they're both terminal degrees. I think the main delineation is with a PhD, for the most part, it's more theory and the DBA is a little bit more industry focused. So, it tends to be people who have been in industry, and they're looking at a specific question, because they've spent the majority of their career looking at this and saying, there's a gap here in the academic body of knowledge, and I've got access to data or insights that maybe are a little bit different. So, it's a little bit different, but they're both terminal, you could teach and whatnot. And most DBA students I've come across are also part-time to sort of recognize that they're still in industry as well.

The Value of Professional Advice

But essentially, what the question is that I've been looking at is trying to figure out what is the value of financial advice. And listen, I used to be a financial advisor. I own a company now where my clients are financial advisors, but a lot of people also know me as an investor advocate. And I can be very sort of adversarial to the industry in terms of some of the practices that we've seen. And I'm not alone. I think a lot of people recognize that there are some structural conflicts of interest that kind of engineer this system where people really question the value of advice. And I know that there are great advisors out there. And I know that there are some absolutely garbage people out there who call themselves advisors and are not giving good advice. And anyone in the industry knows that. And a lot of people outside of the industry know that. So, where do we sort of figure this out? Because there has to be value in advice for it to sort of continue or to get better. And so if we can sort of answer these questions about all right, well, how do we determine what advice is, where do we find that value? Then this can help consumers make better choices in terms of where they go and look for advice. And it can help industry hopefully create models that better suit the people that they are purporting to service.

Richard: 00:06:26 Do you go into trying to understand a little bit of maybe the regulatory hurdles or some of the incentive misalignments that might create this scenario where advice given isn't precisely what might be the most applicable to an individual?

Preet: 00:06:42 Yeah. Well, I mean, lately, yes. So here's the problem that I have. So, the data collection for my thesis has been pre-pandemic. And since the pandemic hit, we've really seen a spotlight shone on this new emerging investor class who really doesn't have a good place to slot into in terms of where they get advice. So, essentially, if you take a look at the sort of last big innovation, in terms of advice would be Robo-advisors, for better or for worse. So, we can talk a lot about that. But so this is something that has come on to the marketplace, and a lot of people are gravitating towards that. But if you look at sort of the dimension of do-it-yourself to advise, there are this group of people who don't really fit into either category. And it has to do with this extra dimension of execution. And so this ties into your question about the regulatory aspects.

So, when it comes to execution, if you set up a DIY, a discount brokerage platform for someone, it's usually operating under what's called an OEO model, an Order Execution Only, which means they cannot give you advice. And so if you want to place your own trade, but you're looking for advice on what trades to place, you're basically relegated to internet forums, newsletters, whatever it is. And we've seen that *Wall Street Bets* has been a big source of information, good and bad for a lot of people. And so we're not really giving them, as an industry, a place where they can do some of the execution because people want to roll up their sleeves a little bit and place those trades, that's kind of fun. But they don't want to necessarily do it all on their own, or only have to rely on these unofficial sources of advice.

And so there's this big gap in the marketplace there that's been identified. And had I started my research, just three years later, I feel like it would have been gone in a totally different direction, because there's so much to talk about, especially with respect to what regulators can do. And another aspect of it is we're seeing people seek advice outside of traditional channels. So we've seen the rise of *fin-fluencers*, financial influencers on Instagram, TikTok, you name it. And they don't seem to follow any sort of regulatory guidelines, they're not held to certain standards, they're not required to register. And some of them say crazy shit. Sorry, am I ...

Richard: 00:09:10 You're good.

Preet: 00:09:10 Okay. I'll be judicious about it. And some people say some wild things, and there's no one there to say *you cannot say that.* Because if someone who was registered and licensed said some of the things that are being said on these channels, they would get reprimanded pretty quickly. So, this is something that regulators are now trying to figure out. Should there be some kind of new light registration that would serve this growing market of people who want just a little bit of help? But we also want to regulate that help that we give them.

Adam: 00:09:42 Yeah, I don't know how you -- there's all these different classes of quasi advice givers now. Right? There's I mean, for a while there was newsletter writers and they were unregulated and then the regulator's forced them to get some sort of license And now, I mean, how do you differentiate between a YouTube stock jockey entertainer and someone on BNN who's talking about this stock or that stock? I guess it's in the language that's used. But I mean, a lot of it is sort of interspersed with different types of rants and entertainment dimensions. It's just getting harder and harder to classify, what is advice versus news versus entertainment?

Preet: 00:10:31 It's a great analogy, because look at, I think it's Fox News that has to go to court every now and then and say, well, we're not news, we're entertainment. Right? Because to say some of the things that they say… and it's the same thing with for example, some YouTubers who are going and creating these videos with investment theses or whatever, and rants and they all sort of have in their disclaimers, in their video descriptions, things like this is entertainment, this is not financial advice. And then they proceed to give financial advice. So something doesn't add up.

At some point, someone's going to have to take a stand and say, well, no, if they are going and telling people certain things, then it needs to be either regulated, or there are certain things that they can't say. So, sort of a catch-all that has kind of worked in the past is, if you're not giving advice that is tailored to an individual, so you're giving it to sort of a homogenous group, you kind of have a little bit more leeway and you're not required to register. But once you start talking about securities and making recommendations to someone's specific situation, that's where the line is crossed. But we're seeing now so much information online and people clearly seem to be crossing some of these lines.

But beyond that, we're also seeing kind of this generation's version of commissioned financial salespeople. Instead of getting product commissions from mutual funds or insurance contracts, they're getting it through affiliate commissions. And I feel that if you're making a lot of money driving people to sign up for this crypto exchange or to buy this token or whatever, that there needs to be some kind of oversight. I'm not saying we have to be all big brother about it. But there needs to be some kind of guidelines, because we're just seeing so many people getting such horrific advice in some cases.

Adam: 00:12:18 Well, I mean, it's just absurd that an investor, a typical investor, who's not accredited or qualified can't buy a market neutral fund from an established credentialed asset management company. But they can be guided into these crazy NFT's and tokens and penny stocks by YouTube influencers who are getting paid indirectly through some sort of indirect quasi commission model, or even just paid in advertising dollars by companies that are affiliated with the investment industry. There's just a lot of different ways that there can be conflicts of interest, and a lot of them are very nuanced and difficult to spot.

Richard:	00:13:10	And isn't this just a function of staying ahead of regulations? I mean, a lot of this stuff is relatively new and so the regulation hasn't been fully fleshed out or rolled out. I mean, in the US, Biden recently came out with sort of an idea or a framework, if you will, of how they might regulate the digital asset space, but it's still very nascent. And so I think a lot of the examples you're describing there, Adam, have to do with people staying ahead of where the regulatory gray zone currently extends.
Adam:	00:13:42	I agree, but my observation is that it's typically not -- you're not getting people who originally worked in some regulated domain of the industry, migrating to TikTok videos in order to generate revenue. Now, to be fair, I don't have a lot of experience with that. I don't think I've ever watched one of those videos. But my sense is, it's mostly sort of younger people who have maybe taken an interest in investing on their own and started talking about it on TikTok or YouTube and got experienced and gained some knowledge and then gained a real following. Maybe because they're entertaining, plus, they are on the right side of a bull market, plus they are on the right side of a growth oriented bull market, etc, etc. And you've got a lot of followers who are sort of mistaking a bull market for some sort of skill or edge, which is very easy to do in this business. So, I ought to say that it doesn't strike me as though there's a lot of previously regulated experienced investors who are trying to dodge regulations by moving to TikTok.
Preet:	00:14:55	Yeah, I think there's -- you hit on a number of really interesting points there. There's a certain element of an anti-establishment perspective. I just don't want to deal with big industry because I've grown up watching multiple bailouts of Wall Street off the back of Main Street. So there's a little bit of a distrust, there's a disenfranchisement, I think, as well. Think about younger investors, thinking that this is their only way to sort of get back up to where they think they should be, because the deck that has been thrown at them is so stacked against them in terms of high debt loads, high house prices, job precarity, decreasing job benefits, more gig economy work. And so they probably feel that there is a way to sort of catch up and it's by swinging for the fences, because what else do I have to lose?
Richard:	00:15:53	It's the YOLO mentality. Right?
Preet:	00:15:56	Yeah, absolutely. So, there's certainly a part of it to do with that. And so the question is can regulators stay ahead? I don't think traditionally, that's ever been the playbook, it's generally been wait until something has become an issue or that they can clearly connect the dots and say, we need to have this … now. They don't tend to sort of say, well, here's where we think everything's going, let's

create a regime that sort of tackles that world that we envision because they really don't sort of look at things that way. They kind of look at, all right, well, what are the bad actors doing and let's put some regulations on them. So, the fact that there's all this new stuff out there, I think that there's going to be a few more years where people will take advantage of the gray areas in terms of the law and regulatory oversight. And so people are going to get hurt.

So, the question really, is what can the industry do to acknowledge this state of affairs? And I think that we are going to see, and we're starting to already see it, a lot more innovation in high volume, light advice, where people aren't going to say, listen, I'm 30 years old, I don't want to go in and talk to someone about what my year by year cash flow is going to be when I'm 66. Like for them that's so far off, and they've got bigger problems to deal with. And those problems don't necessarily require big huge, comprehensive engagements. They may be more likely to gravitate to a model where it's more like, I don't know, like the family doctor model. You go in when something ails you. And if the doctor identifies an issue that's bigger or more serious, then they refer you to a specialist. And so I feel that some kind of model, more innovation in the light advice, holistic advice, but light engagement, is where we're going to see a lot of growth.

The Coming Paradigm Shift

Richard: 00:17:52

It's interesting that you say that, because we've observed some of these dynamics at play here. And a lot of the stuff that we're watching, particularly in the last few months, given with what happened last year with inflation, and obviously, the geopolitical shifts that we're observing, that it's possible that what's worked in the last 10 years isn't going to be working that well for the next 10. And so it's usually the case that a lot of these self-directed plans have these guardrails that will nudge people in the direction of some combination of stock/bond portfolios. So, how do you think about that in the context of a potential for paradigm shift? And a lot of the older, or the more recent portfolio models not working as well, in the coming years?

Preet: 00:18:45

Yes, great question. So, if we go back to the concept of sort of, we'll call Robo-advisor 1.0. In tying this back to my research question, which is quantifying the value of advice, so that you can figure out if what you're paying is worth it or not. And so the academic body of knowledge historically has been more portfolio centric and looking at rate of return, do you diversify people's portfolios more than they would on their own, and so on and so forth. And it's easy to understand why. It's a lot easier to get that data and sort of run those regressions and that's fun. But the industry has always been sort of shifting. So, May 1st 1975, when we had Mayday and commissions were deregulated by the SEC, everyone thought that discount brokerages were going to basically replace the traditional stock broker. It's not really what happened. I mean, that was back in 1975 and we set up a thriving wealth management industry.

So, what happened was, the industry responded by changing what they provided to be instead of focusing on just transactions, they went from single security advice to portfolio management. And the last shift has been from portfolio management to wealth management and how do all the things work together, thinking about taxes and asset location as opposed to just asset allocation and estate planning and what have you. So, the industry has responded and so the sort of practitioner journals have said we need a framework for measuring value in the context that is not portfolio centric, but is planning centric. And so coming up with these ways to sort of quantitatively put a number on how well is someone doing in terms of their debt load? What about their asset allocation? What about their tax planning, etc, that was part of the work, the framework.

And then once we had this framework, then we can basically say, okay, so now we can sort of assign a number on these different dimensions of wealth management. And so let's say that there's 10, one of them is asset allocation, one is savings rate, one is tax planning, whatever. If you now take this model and apply it to the different channels of advice, what you might find is if you go to a robo-advisory model, Robo-advisor, 1.0, maybe they did a great job in putting together a portfolio that got rid of some of the basic portfolio management mistakes, like automatic rebalancing was just done automatically. They matched your portfolio to your risk profile, what have you.

So, along one dimension, they might do really well. But across all the other dimensions, like if you go to a robo- advisor and say, hey, I've got 50 grand in credit card debt, does it say, great, you should not be investing with us, don't give us your money? No, they're going to say, well, how much are you going to give us and we'll manage it for you. And so they may not increase someone's score in terms of their debt management, their insurance coverage, their estate planning; all these other dimensions of wealth.

So, if you compare that to say, an ideal full service model, so let's say you've got the ideal advisory practice, and they're doing all the right things. And they're giving people proper advice on setting up a portfolio, getting them to save more money, getting them to have the proper asset location, making sure that they have their wills up to date, and their powers of attorney, and all these different aspects of wealth they are managing, then they might be increasing someone's overall score a lot more. Let's say that their overall score increases four times what a robo-advisor is doing. But a robo-advisor costs, let's say, three quarters or a half of what a full service engagement might cost. Well, now, instead of saying, well, a robo-advisor is cheaper. Now, you're going to say, well, okay, I'm paying less, but I'm getting only 1/10 of the things that I should be getting advice on.

And so this framework, I think, will help, hopefully, create an incentive for the Robo-advisor 2.0's to do a lot more than just what they have been doing. And I think the other criticism is that traditional robo-advisor platforms have been rooted in these, what are now kind of sort of older ways of thinking about portfolio management. So, I think there is going to be a lot of change in terms of how they build their portfolios. But based on what we've been seeing in the last little while, I mean, I'm not as familiar with the exact portfolio breakdowns of all the robo- advisors in the world, but they do tend to stick towards the very, here are some stocks here, here are some bonds, we're geographically diversified. But do you see commodities? Do you see other alternative asset classes? Do you see a dynamic or adaptive asset allocation? I haven't really seen those at all. But I imagine that those are coming down the road.

Adam: 00:23:45 So, how do you -- A lot of those dimensions of wealth management are pretty subjective, right? Like, how do you weight, the value added from ensuring that a person's wills and estate documents are up to date against having a proper asset allocation or having an appropriate asset location or some of the other dimensions of the wealth management process? It seems like they're on very different scales. And it would be very, it would be challenging to sort of figure out how to even ordinarily rank the value there.

Preet: 00:24:23 Yeah, great question. Because in terms of how, like the resolution that we get in terms of quantifying the value of portfolio advice, we don't have any resolution when it comes to some of these other factors, as you mentioned. So, I can tell you about the framework that I've been sort of working on is, it's a dynamic model. It is sensitive to where people are in their sort of wealth management journey. So I'll give you an example. So, one example would be disability insurance coverage. So, we know from talking to a lot of planners that disability insurance is one of the most important insurances that people can have because if you are young and you lose your ability to earn an income, you're guaranteed to be broke for the rest of your life. So, how important is your disability insurance coverage when you're younger? It's very important.

Now, if you're 64, and you don't have disability insurance coverage, it's really not a big deal, right. So assuming that you've built up your assets over time, you're effectively self-insured at this point, if you're close to your retirement date. And so whether you have or don't have the appropriate amount of disability coverage is almost insignificant in your sort of normalized financial well-being number, if you will. So, the models that sort of I've been applying, tried to create these individual sensitivity loading factors for the different dimensions of wealth. So again, just another example, you know, when it comes to, let's call it portfolio costs, so if you're starting from zero, and let's say that you don't really have a ton of options.

Maybe someone puts you into, I don't know, what 3% MER mutual fund, whatever, and you're putting in 50 bucks a month, I mean, you're paying what?

A couple bucks in that first year. In the grand scheme of things, not a big deal. As your assets grow, it is going to be a bigger deal. So, the sensitivity of that factor is not your age, it's the size of your portfolio. So, if you've got a really big portfolio, and you found out someone was being charged 3%, you'd be like, what? That's criminal, almost. But that can happen when you're young, because maybe you inherit a $10 million portfolio. And just because you're old doesn't mean you have a lot of money, you could be in your 60s and just starting to save and invest for the first time.

So, again, the sensitivity to portfolio cost is the size of your portfolio. So, each of the factors does have some kind of recognition that the importance of those individual factors is different, depending on someone's individual situation. So, it's not perfect. Like I said, it's not going to be as the same high resolution that you would get with all the metrics we have for portfolios, but it's better than what we had before, which was nothing. So, it's very much early days, when coming up with a value framework that is planning centric, as opposed to portfolio centric, for sure.

The Advisor Selection Process

Adam: 00:27:21

It seems like there are dimensions of the advisor selection process for an individual seeking advice that would be more sort of checkboxes. They're not kind of continua so much as they are do you provide, do you supervise the will and estate documents? You know, do you have a team that does that or do you do that? Do you take the time to make sure that my investments are in the right location, RRSP or non-taxable versus taxable accounts, that kind of stuff? And that there are dimensions of the process that are far more subjective, right. So, I can sort of envision and where I'm trying to go here is, I think it's a very hard problem for an individual to select a financial advisor to get them where they want to go. And I feel like there are certain things that you can give an individual and say, make sure that they have these boxes ticked that they will help you with.

And those boxes will be slightly different depending on your stage of life and your financial objectives, etc. But there's going to be a limited number, right? And then I feel like most sort of modern advisors are going to tick those boxes. Right? So as time goes on, it's going to get harder and harder to differentiate on those bases, which is good, right? Like, the advisors are getting more comprehensive, they're getting more qualified in these sort of relatively formulaic dimensions of the process. Right? So, all those sort of checkbox, formulaic dimensions of the process held equal, what kind of guidance would you give to individuals who are trying to select advisors among a group that already sort of have those other boxes ticked?

Preet: 00:29:31

Yeah. Boy, it's a question that I have been talking with people in the industry for 20 years. And I still don't have a great answer, right? And there's so many factors to consider. So, the consensus has been, if you have a household and they have a very complex situation of a substantial amount of assets, they have choice, right? There's a lot of competition for that type of client. As you go down the income and wealth spectrum, the choice really, and the ability to create any type of checklist to say, this is what you should be looking for, in an engagement, it really starts to fall apart.

Adam:	00:30:19	But wouldn't you also say that the need for many of the items on the checklist also attenuates a little bit as you move down the wealth curve, right? You just don't have as complex an estate, you don't have as many investment options or different types of investment accounts. Anyways.
Preet:	00:30:39	So this, I think, is actually the opportunity. So, creating some kind of standardized process for the masses of people that have relatively simple planning needs, compared to the people with really complex situations, this should be an opportunity. There should be a way to use technology to provide more standardization in the planning advice that people get, who have relatively easier situations to plan around, because those are things that could be more easily replaced with algorithms and formulas. And we don't see that yet. We still see especially in Canada we still see that it is product driven, quota driven. When you don't have a lot of money, it is very much about the product, as opposed to the person, that's just the reality of it
Adam:	00:31:40	And what's the interface, Preet? Is it typically, because the way I sort of might characterize it as somebody else above a certain age group, so maybe Gen X and above, you don't have quite enough money to attract a wealth advisor from one of the full service advisory firms. So, what you end up being directed to is the bank branch, and then the bank branch directs you to that bank's mutual fund products. Is that kind of where you're going with that?
Preet:	00:32:15	Yeah. There's definitely a lot of that. I mean, and part of the issue is that again, let's say, you have less than $50,000. Less than $50,000, the advisors who we would look around and say, this is someone I would reckon my mother go to, right? You don't find a lot of that. You can't really say that a lot. There's more advisors by number sort of in that, or I should say, maybe salespeople, sort of in those channels. And it's very hard to sort of pick out who's doing a really great job. But once you have sort of identified either internally or to yourself that, hey, this is something I'm good at, I like doing, you naturally start to move into these different channels of advice.

So, here's the other side of the coin, that I want to sort of challenge people to think about is, when it comes to dealing with these households, that may be very desirable. There's a huge selection issue that we need to sort of think about, and there's multiple facets to that selection issue. So we have seen lots of studies that will say people with money, or people with advisors have more money, right, and these are totally correlational. A lot of them have been correlational. Because we know, if you don't have a lot of money, it's maybe not as much of a priority for you to seek someone out. And if you're on the other side of the table, you're an advisor, you're only going after people with money, right. And that historically has been the case because of how the industry has been compensated.

But to go another step forward, when you think about the quality advisors out there, they tend to gravitate towards higher and higher asset minimums before they start turning people away. And then maybe after 15-20 years, some practice management consultant comes to them and says you really should cut out the 80% of your clients that only generate 20% of your revenue and focus on your ideal client. And so then you are now sort of excluding people. And what happens to those people that you've culled from the herd, where did they go?

So, there's people who are maybe more malleable and better to work with and have a good sort of privileged financial background or whatever, they tend to find the really good advisors and those advisors tend to want more of those, and they kind of end up together. And so, you'll have these situations where these high quality practices deal with great households, great clients, and it's great relationships. But that is such a – it seems to be relatively unique in the grand scheme of things. There's so many more people who are always fumbling around trying to find, well, who is my forever advisor going to be?

And so one of the other dimensions we have to think about, as well, is the client, we tend to paint this picture of what's a good advisor? What's a bad advisor? And one of the things I've been thinking about more lately is, what's a good client, what's a bad client? Not in terms of asset levels or complexity of their situation? But are they going to be a good client? If you find an advisor, who is let's say, you've somehow identified them to be a perfect advisor, you can't just assume that every client that goes to them is going to get the same experience or is going to have the same outcome, because people are people, they're all individuals. Some people are malleable, and they can take advice and work well with it, some people can't be coached.

And what happens to the people who maybe have a bad experience with a good advisor? Or vice versa, what happens to the people who are really good potential clients because they have the personality traits that if you gave them the right advice, they'll do great things in terms of achieving their financial potential, but they went through a bad experience. So, there's the other side of the coin as well. And instead of kind of just looking at good advice, bad advice, what should we be looking for, I think we need to think about how do we deal with different situations and be a little bit more bespoke, as opposed to off the rack. But again, this is a luxury of, that you can only sort of deal with when it comes to these ideal sort of household. So, anyways, I could go on and on about this one aspect alone.

Richard: 00:36:20 It sounds like you're describing one of the strongest dynamics that is driving a lot of the TikTok and YouTube influencers that we were talking about earlier, because they're filling in this void that a lot of the clients are finding after they get fired from their advisors, so to speak. So, it sounds like if a lot of advisors, if what you just described is representative of a large cohort of advisors, then there is a real need for some form of advice for those retail clients that are not having their needs met.

Preet: 00:37:01 Yeah. I mean, if you sort of go by extension if, let's say, and this is tying a little bit back to the questions about regulations, and how they've sort of kept pace with innovations in the space, and you've got more and more advisors who say, well, I'm not allowed -- my firm, my compliance officer won't let me even talk about Bitcoin in someone's portfolio and how it works in their plan or whatever. So, what does that person do? They'll go and they'll find where people are talking about it in an unregulated space in social media, and they will find people that are basically just confirming what they already sort of believe, whatever their worldview is, and reinforce it.

So, there's that confirmation bias running rampant right now, in social media because of this, I guess, this leapfrog effect that we have with innovation and regulation, and regulation kind of is always going to be a step behind. So, this has become more of an issue. And we've seen it highlighted in the media with whether it's *Wall Street Bets* or the NFT craze and just some of the strange things that you're saying. And just to be clear, I'm not anti-crypto. I think that there's great potential in that space. I think it's widely misunderstood. And this mismatch of people's knowledge about the space is leading to really bad outcomes.

World Class Regulatory Frameworks

Adam: 00:38:22 I wonder if you've got any insight on whether there are any regulatory frameworks around the world that might serve as examples that the rest of the world might try to converge upon. And I'm thinking specifically, for example, about Australia's superannuation system. And I know that, for example, Peru has a similar superannuation system, because we happened to travel there and speak to some of the CIOs' of the superannuation funds. But one of the things I've said for, going on 10-15 years is that one of the greatest policy errors that governments made over the last 50 years was the privatization of retirement savings. Right? Forcing individuals who have very little experience, they aren't taught the basics of economics, or investing or saving or planning in school or at any stage in their public education. And yet, we force them downstream to have to make these incredibly critical choices about their financial future. And so I'm just wondering whether or not there are better overall systems out there that you might advocate for Canada and other countries to maybe model themselves after in order to maybe just make it easier for individuals to be more successful with their investing and saving.

Preet: 00:39:56

Yeah, that's a whole big can of worms there. I'm not a sort of a political science expert by any stretch of the imagination. But my understanding is that anytime you have a regime where there is a lot of sort of state regulated savings, you've got maybe less choice, that sometimes some party will come in and say, you should have more choice, and we're not going to force you to save into this. We think you should do it on yourself. And because we're present biased, it's that dangling carrot of having more money today to do things that we want to do, especially if we feel that we're struggling, which we may not recognize the impact it has down the road in terms of our ability to fund our lifestyle down the road. So, I think there is that political component that comes in.

So, if you created a system where maybe there was more government support, and you know, maybe it's higher tax rate that that funds that, or whatever it is, someone will come along and say, there's another better way to do it and we think it's lower taxes and more control on your part. And depending on where society is, you could see any effort to try and build that up can get taken away. So, I think that's kind of like a pendulum that swings, right? And I think the problem is, it's not until you've identified it as being this - at crisis levels, that someone will step in and say, well, maybe we should increase the guaranteed income when you're a senior, and maybe we should increase savings rates into either superannuation or in South America, some of the systems that they have down there. So, I don't want to weigh too much into that because I feel that it's more than just what is one system that is better than the other? Because I think those are always subject to change based on sort of the political factor.

Richard: 00:41:51

Yeah, that's definitely -- No, I could see that being a huge differentiating factor across cultures, countries, jurisdictions, and all of that. But maybe from your history of study, right, you've been a student of behavioral finance for some time. Maybe walk us through a little bit of the behavioral nudges and some of the practices that you've found over the years that are helpful in getting advisors to align their clients with maybe the right advice and help them make the right decisions without sounding overly formulaic, and just getting them to stick to something which we know, empirically can be quite challenging.

Preet: 00:42:35

Yeah. Well, I think one of the biggest issues that's been identified is sort of the hyperbolic discounting or the present bias that we have, where we just look at the world differently depending on when the impact of our decisions are going to be felt, right? So, and this applies across the board; physical fitness, diet, saving for the future. And so a lot of people will say next week, I'll go to the gym four days out of seven, right? And you think, of course, I'm going to do that, right, I'm motivated. And next week I'm going to go to that gym, and I've got my routine, all written down everything. And then next week rolls by and you're thinking, what the hell was I thinking? I'm not going to the gym four times a week. And so we have these time inconsistent preferences.

And this is fundamentally one of the biggest things about saving for retirement is you're asking people, do you want to forego consumption today, where it's more painful, so the pain is magnified by forgoing consumption right now, because it's in the present. And the benefit is so far down the road it's abstract, of we don't sort of feel what that positive impact would be for saving that money today, so we're disconnected. So, anything that we can do to either get people more connected with the future and to think about the future, make it less abstract is good. But the other thing that I think is probably the most effective, and I think we have a lot of empirical evidence for this is that processes are probably the most important thing that you can instill into your finances to circumvent having to make these trade off choices all the time. So, when you ask people who have successfully retired, what is the single best thing you ever did for your financial potential, and to a T, they always say, making my savings automatic, having someone force me to save.

So, going back to what you're saying Adam, one of the benefits of being forced to save is that if you don't really have that choice, maybe you don't sort of recognize that it's such a great thing at the time, but when you retire like oh, man, thank God, we had those two teachers pensions, right. So, people always look back at those sort of poor savings regimes as *this has been amazing*. But getting people to understand that in the moment is really difficult. So, here's a great example of how this present bias works. So, there was a study where they asked people, hey, we're going to do this workplace seminar on workplace safety, it's next week, pick the snack that you want, we're going to bring in either fruit salad or chocolate cake or something like that.

And when you ask people to make their snack selection in advance, two thirds pick the healthy choice, 1/3 pick the chocolate. And then on the day of the workplace seminar, the experimenter said, oh we're sorry, we lost the sheet where everyone had signed up for what they want, but we've got tons of food, so you can just make your choice today, what do you want, and then it was completely inverted. Now two thirds picked the unhealthy snack and only 1/3 picked the healthy snack. And that's because when we're thinking about making a decision that we won't feel the impacts for until the future, we tend to think a little bit more rationally or at least better, more aligned to our self-interests. But when we're making a decision in the moment, that's when we become more instinctual. That's when we start to rely more on our impulses.

So, it's kind of like, you remember in *Interstellar* when they went to that planet that was in the like, that event horizon of that black hole and time passed super slowly; it totally warps the passage of time when you're close to a gravity source. And our ability to make decisions in our long-term best interests are totally warped when we feel the effects today in terms of giving up work, giving up consumption.

Richard: 00:46:26 That was a great nerdy reference.

Adam: 00:46:28 Which totally appealed to us, and probably most of our listeners and watchers, so well done. But I was just thinking that the -- Oh, you totally derailed me, Richard with your nerdy reference. Now, I'm thinking about

Preet: 00:46:46 Well, while you're thinking about it, I'll give you an example, again, where we've seen the impacts of asking people to instill a process and how we've seen the positive impact. So, Richard Thaler and Shlomo Bernartzi, wrote this paper, *Save More Tomorrow For Tomorrow*, right? And so they went to a whole bunch of 401K plan sponsors. And they said, hey when you have new employees joining the company, you ask them how much do you want to contribute to their employee savings plan and they pick a certain amount. And they basically added one little box on the form that says, when you get your next raise, what percent do you want to commit to your future savings.

So, there's kind of two things going on there. One is, you're making a decision where you'll feel the impact in the future. So, you're more likely to make a more rational decision, for lack of a better sort of phrase. And the second thing is if you ask someone, hey, do you want to save 200 bucks more per month starting now? Well, then they have to forego $200 of consumption right now. But if you ask them, hey, when you get an extra 500 bucks, then do you want to take 200 bucks, they're still experiencing an increase in cash flow, so they don't feel that loss aversion as well. So, if you can get people to make decisions in advance, that, I think, goes a long way. And that one study, the Save More Tomorrow for Tomorrow, I think Cass Sunstein did an analysis or wrote about it the analysis that over 10 years, the companies that participated in that experiment, saw an increase in their 401K balances of just under $27 billion in 10 years compared to companies that didn't.

Adam: 00:48:25 Yeah. Well, that's a huge effect, for sure. And I can totally see why. Because you're committing, you're still getting some extra spending. And you're not seeing what you're losing out on by contributing more to your savings. So that's a really smart policy.

Richard: 00:48:43 And it also seems to jive with this notion that I think has kind of been well established now that we have sort of a finite number of good decisions that we can make on any given day. Afterwards, we're just tired and exhausted and we'll probably rely even more on our reptilian brain and not make a good decision. So, if we can avoid taxing that finite pool of good decisions on any given day, it just allows us to make better decisions over time.

Preet: 00:49:13 I love that you brought that up. This is something I believe wholeheartedly and I have 20 of these black T-shirts. I wear the exact same thing every day. It's one less …

Adam: 00:49:22 … I noticed.

Preet: 00:49:26 And there was a great blog on, oh, I forget where it was. But this guy tied it together these two experiences, which I thought were just phenomenal and explaining just the cognitive load that we experience when we make decisions and how the optimality of our choices goes down when we don't give our ourselves time to replenish sort of our willpower. And so the two experiences were very cool. First one was, researchers lured subjects in under the guise of studying the impact of geography change, environmental impact, environmental change on memory recall. And so they divided people into two groups. And if you're in group number one, you have to memorize a two digit number, really simple task. And if you're group number two, you have to memorize a seven digit number. So again, relatively simple task.

And then once you got your number, you would have to go down a hallway, find a researcher in another room, so that's the environment change. It wasn't climate change, it was geographical change. And then tell them what your number was. And then as a throwaway statement, they said, as you walk down the hall, there's going to be a snack cart with fruit salad and chocolate cake, pick one. And so everyone went through the experiments. And then they tallied up the results. And they said there was nothing new to be learned about could people memorize seven digits or two numbers and whether they walked down the hall or not, they couldn't care less about that. They wanted to see what snack they picked.

And it turns out that if you only had to memorize a two digit number, you pick the fruit salad and chocolate cake in equal proportions. But if you had to memorize a seven digit number, you almost always pick the chocolate cake. Right? And essentially if you think about it, memorizing a two digit, two digit number is simple. And so when you get to the snack cart, you've got brainpower leftover to use an exercise willpower to say, well, that chocolate cake looks really good. But I know the fruit salad is better for my long term health, so you're more likely to pick the fruit salad. But if you're memorizing seven digits, and our working memory capacity is seven digits, then you have basically no brain power left over. So, you walk by this, and you just rely on instinct, you get primal like that cake needs to be in me, and then you go down the hall. So, that was the first experiment.

The second one that he tied into this was, again, subjects were divided into two groups, and they had two tasks to perform. Task number one is they had to squeeze these exercise hand grips. And in the world of psychology, they're not super stiff, it's not a measure of strength. It's a measure of willpower. And the longer you can hold on, the more willpower you have, and the global average is like two minutes before people let go. Task number two was, you had to make a decision as to whether or not you wanted to buy this high-end brand name soap that was on sale at a big discount, yes or no. If you're in group number one, squeeze the handgrip first, then make a decision about the soap. Group number two, make a decision about the soap first, then squeeze the hand grip.

So, if you're in group one, you squeeze first, then you make a decision about the soap, everyone is able to hold on for two minutes to the exercise handgrip, and then they make their decision about the soap. If you're in the second group, though, and you make a decision about the soap first, if you're high income, you hold on for two minutes, just like everyone else in the world. But if you're low income, one minute and 20 seconds. A full 40 seconds less than everybody else. And remember in that first trial where everyone squeezed first and then made a decision about the soap, everyone high income, low income held on for two minutes. So, it was something about making that decision about the soap that impacted people who are low income more than high income.

And essentially what happened was, they said, listen if you're high income and someone asked you, hey, you want to buy this soap? You're like, I don't know, do I want that soap, yes or no, it's not a big deal. But if you're low income, and someone asked you, hey, you want this amazing sale on this high end soap that's deeply discounted, you have to make a trade off choice, which requires exercising willpower, because you have to give something up out of your current expenses in order to get that soap. And so if you've used that willpower muscle, and then you're tested for how much willpower you have, it's depletable, right? That kind of shows us that willpower is depletable. And the optimality of our choices goes down the more we deplete our willpower.

So, back in the pre-pandemic days, I used to always tell people, if you're going to make the most important decisions, if you're an advisor, you're going to meet with a client, if your client you want to meet with your advisor, do it on a Monday, right, after the weekend when you had the weekend to recharge. Because what used to happen was Monday, Tuesday, and Wednesday, we all had our routines; get up at the same time, go to work, come back, make dinner, hopefully the kids are around the table. Thursday, you always ordered in, Friday, you went out, right.

So, sort of the optimality of the choices kind of decreased as the weekend approached and you need that weekend to replenish. And what we've seen with the pandemic is, we've never had time to stop. At the beginning of the pandemic, you remember you never knew what day of the week it was; everything was a blur. All the things that used to demarcate the passage of time were blown out the window, right? Work, home all together at the same time. All these little micro decisions that we had to make about do we wear masks, do we get vaccinated, what about the kids, who's going to look after the kids without daycare. All this stuff cognitively loaded us so much that our ability to make good decisions about the future went out the window. So anyways, sorry about that super long rant.

Forced Savings for the Masses

Adam: 00:54:48

No, that was really cool. Those are really cool experiments. And it all adds up to, I mean, it seems insurmountable to me, Preet. This is why I keep banging the drum on the fact that trying to leave this to individuals is just so misguided. We are bombarded constantly with complex decisions. And the modern societies are not making that any less true. If anything, our lives are getting more busy, more complicated, we're distracted by more devices, we're making more decisions throughout the day, the decisions have higher emotional valence. And so our capacity to think forward, think long-term, maintain willpower and discipline is, I think, getting incrementally worse over time. To me this is a prime case of we are setting ourselves up to fail. And the only way that we can make a major dent in individual's ability to make better choices is to set in place or put in place regulations that basically force people to save.

And this is why I find the superannuation or the Australian models so compelling primarily, not because -- well, some of it is because whatever you're being forced to save is now being managed by prudent professionals. And we can argue all day about whether institutions generate stronger performance or better risk adjusted returns and whatever. I think, professionals on average, and you don't need to be the most highly skilled professional, but you have some training in investing, you're going to do a better job than somebody who has no training in investing. I think we can all hopefully agree on that.

And so notwithstanding that, you are now forcing people to save and importantly, everybody is forced to save the same amount or same proportion of your income, up to a certain level. And what that also avoids then is the multipolar trap potential of this sort of status seeking, where you've got your group of friends happens to not be good savers. They all want to go on an expensive trip. You want to save but your peer group is going a different way. And so you've got this status decision that you need to make, in addition to deferring consumption.

And one of the things that I always come back to in terms of the psychological experiments is, if you simply put down what the average person saves, so when you're hiring somebody and you're setting up their retirement accounts, if you simply put the average person saves X a month, then the vast majority of people will just tick the box to save that amount, right? Again, indicating that we anchor to what our peers are doing, right. So, you've got all of these different complications that make it almost impossible for most people to make good choices here. And my position is, the only way you can get it right is through regulation. There is no set of incentives that are going to motivate enough people to make good choices. The only way to do it is to set up common standard and force everybody to make good choices in furtherance of their future self. Am I wrong?

Preet: 00:58:35

A lot of thoughts on that. I think the spirit of what you're saying, I completely agree with, in terms of we know that one of the most powerful ingredients is starting to save early and you don't even have to be a great investor. You just have to get started and building up that habit of putting money away. And if you start a couple years earlier than the next guy, and in some cases it's going to be a couple decades earlier than the next guy, because some people just don't get around to it until they sort of say, oh, I'm 50 and I haven't saved anything for retirement. I should probably do something about that. And all that time that was wasted, even putting in a small amount when you've graduated school, we can see how that can be completely transformative.

And so I agree that that would be beneficial. I think it's a tough sell. I think just in terms of being able to sell that to the masses, you're going to have -- like it would be such a divisive issue. But again, going back to - think about teachers who have great pension plans, and they look back and they're all like, man, thank God I had that pension plan.

Adam: 00:59:48

But this is what I mean, Preet, because it wasn't that long ago where the vast majority of Canadians and Americans had defined benefit pension plans through their company and/or through their government job, right? So, it was, what, 30-40 years ago when companies decided that this was a disadvantageous liability on their balance sheets. And so they advocated for the privatization of retirement savings. But this has been a profoundly destructive policy change for the vast majority of individuals. So I mean, I hear you, sure, there would be resistance. But it wasn't that long ago when everybody agreed that this was the most optimal approach. And it's really just corporate lobbyists that were successful in shifting gears on this 30 or 40 years ago. So, I don't -- I wonder.

Preet: 01:00:39

I think if you painted a scenario for someone, which was kind of like this, we'll call it a utopia that you're describing we'll say …

Adam: 01:00:48

The utopia of the 60s and the 50s into most of the 70s.

Preet: 01:00:53

Yeah. If you presented to people a choice, say, listen, do you want to retire at 65 or do you want to retire at 80 or something like -- and just boil it down to when do you want to retire or transition from work into -- whatever the future of retirement looks like. And you just sort of boil it down to yeah, I want to retire earlier. Then okay, well, then that means that we're going to take more out of your paycheck and put it into this, call it a superannuation or whatever. I think a lot of people might say, yeah, that's kind of what I want. Because to your point about how complicated and how much noise there is, and all the decisions that we have to make, we know that there is analysis paralysis that sets into people

		when they are overwhelmed with all the different variables that they have to take into account. Sometimes they won't take any action because they're afraid of not making the optimal choice, because there's just too much to know, right? So we've seen this with, again, there was a study that looked at 401K plan participation rates in the States. And what they found was if you had 59 different investment fund options as part of your 401K plan, the employee participation rate was 60%. If it was like two or three options, which was basically I think, long term savings or short term savings, the plan participant rate was 75%. And I don't know if you heard about that study, *The Tyranny of Jam.* But basically these researchers went to this, I think it was a Southern California grocery store, and they set up these jam tasting stations. And every couple days, they would change up the display. So some days, you would have six different jams that people could sample and choose to buy from or not. And then some days, it would be a wall of like 24 different jams to choose from. When people are only exposed to six jams, they are 10 times as likely to buy jam. And …
Adam:	01:02:45	No, we should do that for broccoli.
Preet:	01:02:50	And what they found was for all the people who bought jam, if they were only exposed to six jams, they also rated their satisfaction as way higher. And essentially, if you think about it, if you are faced with six different jams, you can probably cross off two flavors that you know you don't like, you can sample two or three and then what you're left with is almost complete information about what is the best choice for you. But if you have 24 different choices of jams, you can maybe cross off five flavors, maybe you taste five before you're like that's enough sugar in one sitting.
Adam:	01:03:19	Much higher potential regret.
Preet:	01:03:22	Yeah. And that leaves you with 14 jams that you don't know anything about. And so because you don't want to make the wrong choice, or not the most optimal choice, you don't make a choice at all. And that's how I think people look at all the financial decisions that they have right now. It is overwhelming, all the things that they have to consider by themselves. And so to your point, if you could radically simplify things, and just sort of make things as black and white as you can, I think you will actually have people making better choices. But again, there's that political component.
Adam:	01:04:01	Yeah, agreed. All right. Well, Richard's got to get on a plane, and you obviously …
Richard:	01:04:08	You guys can keep chatting. This is a great conversation. I have to say, I'm almost tempted to miss my flight here.
Preet:	01:04:14	No, you're not.

Adam:	01:04:19	But yeah, so we'll have to get you back on just before you defend your thesis, and before you never want to think about these topics again to bring this full circle and really give people the full picture on how to think about seeking advice and finding the right advisor. But it definitely, I agree with you, it's an open question. And I didn't mean to put you on the spot. I genuinely think that this is a very hard problem. And it's complicated by the fact that in my experience, and I've got and I know you got sort of similar, we're probably of a similar age, Preet, but I've got maybe 25 years of in this business dealing with advisors, and it's the most counterintuitive process imaginable, because the least personable, least put together person, often they're on some sort of personality disorder spectrum or whatever. These are the advisors that are most likely to do a great job for you, right? They have the highest competency, the most credentials that because of the fact that they may have some emotional deficits, they're actually more likely to stick to investment plans. But …
Richard:	01:05:38	But they have a smallest AUM.
Adam:	01:05:41	They have very little AUM, they are not personable and therefore, the average individual doesn't gravitate to them. Instead, the average person gravitates to great charismatic salespeople that often don't have any material skill in the investment and planning realm. And so that's a whole other dimension that makes this unbelievably complicated.
Preet:	01:06:05	I cannot tell you how many advisors I've seen washout in the industry who should still be in the industry because they were great at planning and they just didn't have the sales component. And listen, I'd be happy to come back anytime. We could do three more hours just on the topic of advice, advice seeking, and value of advice, and I'd be happy to do that anytime for you guys.
Richard:	01:06:29	100%. There's a lot to explore on the differences across geographies and cultures and …
Preet:	01:06:35	We can get into things like judgment anxiety and disclosure anxiety that people feel when they're meeting with professionals. I mean, there's so many aspects we still have to talk about.
Richard:	01:06:46	Yeah, we'll definitely have to get you back on.
Adam:	01:06:47	Needs to be a series, Preet. All right.
Richard:	01:06:51	Thanks so much for your time. Tell everyone where they can find you.
Preet:	01:06:56	Yeah, latest thing that I've been working on and putting efforts into is my YouTube channel. So, you can just find Preet Banerjee on YouTube, or just go to

my website, PreetBanerjee.com. That's got links to most of the other stuff that I'm doing.

Adam:	01:07:10	Brilliant. Love it.
Richard:	01:07:11	Awesome. Thanks, everyone, for tuning in.
Adam:	01:07:12	Well, good luck with your move and good luck with your program. And thanks to everyone for tuning in. And have a great weekend.
Preet:	01:07:19	Thanks, guys.
Richard:	01:07:20	Bye, guys.