Markets Update: The Rise of Retail Investing

JAKE SIEWERT: Welcome to our Exchanges at Goldman Sachs markets update for Friday, February 5th. Each week we check in with a leader across the firm to get a quick take on what they're watching in markets.

This week we're continuing our exploration of the retail trading boom and what it means for investors. I'm Jake Siewert, Global Head of Corporate Communications here at the firm. And we're joined by Joe Duran, Head of Personal Financial Management for Goldman Sachs. Joe, welcome to the program.

JOE DURAN: Thank you, Jake. I'm thrilled to be here.

JAKE SIEWERT: So, Joe, as we've discussed on this program a little bit this week there has been a tremendous number of individuals opening brokerage accounts to trade individual stocks. How does the retail activity that's been getting a lot of attention in the media line up with the academic principles of retirement savings and investing?

JOE DURAN: Well, it doesn't line up at all, actually. When you think about it, when you're looking at retirement it's typically several years out. You're making discussions that will affect you over your lifetime. And trading is really not about that. It's about how much can I make right now? How do I avoid loses right now? So, you're dealing with a different part of your brain. You're dealing with your instincts rather than with your judgment. And I would just say that if you are making lifetime, life changing decisions, you don't want to be impulsive. You don't want to be emotional. And this really like a sugar high. Like, a lot of what is happening is instant gratification or instant pain. It's not that different than video gaming. In fact, I think it's a great analogy that a lot of people are cooped up and they are using this kind of like high stakes video gaming.

And in fact, when you look at some of the messaging that's happening, it feels like that. The interactions are like people have when they're playing a video game. They're making fun of each other. They're talking about storming the castle. It's the same thing. This is not investing. This is speculation and gaming. With a lot of people having real life consequences. Some doing okay, but the vast majority are getting harmed in the process. So, I don't think you can compare them, really, as an investing conversation.

JAKE SIEWERT: So, Joe, we've seen in the past few weeks a really severe short squeeze, one of the biggest in modern stock market history. What are your personal financial management clients telling you about how it's having an impact or not having an impact on their own portfolio strategies? Your folks are mostly thinking much more longer term. So, how do they view this boom in retail activity and some of what's happening?

JOE DURAN: Well, you know, we're dealing with people's life changing wealth. And you know, it's important, we have some very simple principles when it comes to investing and making financial choices. The first one is that your financial life will not be ruined, should not be ruined, by your investment decisions. It will be ruined by choices you make in your life that you can't fund and that you're not prepared for. So, our job as advisors is to really help you understand what you can control and focus on that. And not make choices that end up harming you.

And so, when you're in a situation where there are a lot of emotions, where there are lots of moods-- I mean, it's been hard to avoid GameStop. I play beach volleyball. Everyone I play volleyball with is saying the same thing. "UNINTEL], well I did buy and now I'm making all this money." Of course, they never tell you when they lose money, right?

And a good advisor, their primary job is to give you perspective. To help you step back and say, "Okay, if you want to go play, play with 100 bucks. Have some fun," just like you would in a casino in Las Vegas. But that is not part of the stuff that really counts. Because, again, you want to control the things you can control. And you have absolutely no say in what happens in a short squeeze, how it unfolds. And candidly, these stories always end badly.

You know, I was doing this in '99. I remember it very well. And this feels very much like it. Where everyone's [UNINTEL] in a [UNINTEL] theory. "I'll buy regardless of the price on the assumption that some other idiot will come in and pay more than me at some point." But what happens when people head for the doors is usually the smartest people are out the door first. And everyone else who was having a coffee break at the time or had meetings or was raising their kids wasn't there to see that everyone had run out the door and you're left holding the bag.

And so, what I encourage everyone is don't confuse your life changing wealth with your play money. And do not think that you can take on the billions in assets-- I think it's very compelling, it's quite romantic the story that's being told that this the small going against the big. But the truth is that unless you can control the outcome, don't be silly enough to step in and put your future on the line.

So, our job as advisors is really to provide perspective and point out the blind alleys you might not see for yourself because your emotions are involved. And then help you to optimize your decision making, regardless of whether it's when you retire or what the impact is of a diverse or an illness. Because those are the things that really impact your life.

Retiring when you're early has a much bigger impact than if you outperform or underperform the S & P 500.

JAKE SIEWERT: So, Joe, from a personal financial perspective, what are some of the costs that individual investors have to consider, whether it's tax impact, transaction costs, or higher costs of options that have accompanied some of the heightened volatility we've seen in stocks recently?

JOE DURAN: Well, just remember, the volatility only affects you if you do something about it. So, I always try to tell people volatility, it comes and goes. It ebbs and flows just like the waves. So, what I would say to everyone is, "Look, volatility harms you if you step into it and do something about it." And I'll use the recent big decline we had. The sharpest decline we had in the shortest period in that six weeks where we lost 35 percent on the S & P 500. That was the most abrupt decline that we saw right when the pandemic hit about a year ago. And people were mortified.

We had some clients that called us saying, "I'm losing all my money. I've got to go to cash." And I'm like, "You only lose your money if you, in fact, stop participating." Of course, six weeks later we were back like nothing had happened. And even though the economy is scary, the stock market has continued to do remarkably well because companies adapt and change. And this is the beauty of investing. If you don't get sucked into the noise and the media news cycle, which can be entertaining and fun to watch, but should not drive your investment decisions.

So, I think you should separate entertainment from investing. And the job is whenever you have an impulse, ask yourself one question. Am I doing this for a fear of missing out, in other words, "I've got to get in because everyone's making money, or a fear of losing money," "I've got to get out because I don't want to lose any more money," because in both of those cases your emotions are driving your decision and you are likely to be making the worst possible decision at that time because alongside you everyone else is feeling the same way. And money is not made by doing what everyone does. It's by doing what's right for you at every given situation.

What I tell everyone is, "If you're uncomfortable with the volatility, then you're taking too much risk in your portfolio as a whole." And it should not be viewed in the context of today's' volatility, it should be viewed in the context of your portfolio. And a good advisor should have you set up so you can withstand whatever volatility the market gives you. And again, it's been a remarkable 25 years. We've had two 50 percent declines. A 35 percent decline. And I recall in the '80s and '90s, there was nothing like that when we were investing. It was just very, very low volatility. And we're in a new era now. So, make sure your overall portfolio has the right risk ability so that you can actually withstand whatever volatility is out there in market.

JAKE SIEWERT: All right Joe, how are your investors thinking about active versus passive investing? Obviously, passive has been on a huge boom for many, many years. But active is coming back a little bit. How are people thinking about those choices in today's environment?

JOE DURAN: Well, the biggest issue for most investors today is how do I get yield on my portfolio? Honestly, that is the number one question we hear from our tens of thousands of clients, is, I've got to get yield. Especially if your approaching retirement. And because there are so few alternatives when the ten year is just over one percent on a ten-year bond, you're naturally pushed up the risk curve.

So, there are two things that I would advise everyone. First, make sure you don't have maturity on bonds that are too far out. So, in the active versus passive, first of all, if you're going to own bonds, own individual bonds where you can. And if you don't, if you don't have the resources, you need to own an ETF or a mutual fund, own short maturities so if the interest rates go up you don't get harmed. Because right now capturing an extra 25 basis points of yield comes with a lot more risk. You have to go out either out maturity or out risk.

And equities, I have a very simple view of the world which is the large cap market is fairly efficient and indexing works. In some parts of the market, emerging markets, small caps, there are inefficiencies. But you need to be really diversified because you'll get noise like you get at GameStop or we had in AMC. There will be individual stocks that can make a lot of noise up and down. And so, you want to be very diversified. But you can find value added management where the markets are not already extremely efficient. And large cap US is incredibly efficient.

So, what I tell people is, earned indexes, they're [UNINTEL] individual security, so you can tax manage around them. So, if you own four or 500 of the S & P 500, many of them will be going down. You'll get opportunities tax loss harvest in that. And then capture the rebound in a different equity and still have tax alpha, which you can control. Again, focus on what you can control. Keep loss costs low. And manage your taxes so that you can actually withstand whatever happens. But also reduce your liabilities and your cost for investing.

JAKE SIEWERT: Well, Joe, you came to Goldman when Goldman bought a company that you founded, not the first company you founded, but the latest, United Capital, which is now Goldman Sachs Personal Financial Management. You've been here long enough to have an interesting perspective on the firm. Do you want to share with the audience what some of the surprises that Goldman has brought?

JOE DURAN: Jake, I have two. You know. I came from Zimbabwe. I built two companies. My first one I sold to GE. This one I sold to Goldman Sachs. And like everyone else, I had very significant impressions about what Goldman Sachs was. Of course, you're the smartest guys in the room, and gals in the room. But also, an impression that they were super arrogant people. And I can't tell you how far from that I have found everyone to be here. They're super down to earth, incredibly authentic.

The second was, you know, oh, it's Wall Street, it's all about them and products and everything else. Couldn't be further from the truth. I mean, this is an obsessive about client wellbeing and doing the right thing under all connections at every level of the organization, no matter where you go. So, I have to tell you, first of all, the nicest people I've met. I'm incredibly thrilled and honored to be part of it because, say, it's just brilliant. But they're also really nice and care a lot about doing the right thing. So, it is not remotely what I expected when you think about a big Wall Street institution with 150 years of heritage. I realized the way we've gotten here is by providing advice to some of the wealthiest people in the world. And for me, it's an honor to be able to offer that kind of instinct and knowledge and experience to people who, in the past, weren't able to work with Goldman Sachs. And that's what we're trying that'd, is to try to expand our expertise and provide it on a human level, on a personal level, right [UNINTEL] with clients that never would have had access to all of our amazing thinking and research.

JAKE SIEWERT: All right, Joe. Well, it's been a pleasure to work with you over the last several years. And thanks for joining us today to share your perspective on the markets.

JOE DURAN: Thanks, Jake. Have a great weekend.

JAKE SIEWERT: All right. That concludes this episode of Exchanges at Goldman Sachs. Thank you very much for listening. And if you enjoyed the show, we hope you subscribe on Apple Podcast and leave a rating or a comment. And in case you missed it, check out our other episode on retail investing this week with leaders around the firm who explain the market dynamics and what it means for institutional investors in corporations.

This podcast was recorded on Wednesday, February 3rd, 2021. Thank you for listening.

responsible for any errors in the transcript.