

# The Australian Finance Podcast Episode Transcript

**Episode:** Just keep buying (investments) with Nick Maggiulli

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**Speakers:** Owen Rask, Kate Campbell & Nick Maggiulli

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**Episode transcript:**

Owen Rask:

Kate Campbell, welcome to this episode of The Australian Finance Podcast.

Kate Campbell:

It is good to be back on.

Owen Rask:

Yes. We always love to do these international guest episodes. Joining from the U.S., Nick Maggiulli, how are you going, mate?

Nick Maggiulli:

Good. How are you guys doing? I know it's early there.

Owen Rask:

Yes, it is. It is 6:00 AM here. This is not the earliest one we've done, so that's okay. What's the time where you are?

Nick Maggiulli:

I think it's 4:00 PM Eastern right now.

Owen Rask:  
Okay, so you're-

Nick Maggiulli:  
Nice afternoon. Yeah, day's kind of over.

Owen Rask:  
That's it. Just cruise into the evening, we're just getting started. But this actually works really well because we go from here while recording at home, and then we have our commute into the city and we meet in the office and the team's none the wiser, so this is perfect.

Nick Maggiulli:  
I see.

Owen Rask:  
Kate's put together some wonderful questions for you, Nick. I actually first came across some of your work through Ritholtz Wealth Management and through some interviews, and those types of things. So this is a really exciting conversation, especially given your background in data analytics, programming, et cetera. Kate, I know you had the book in the office last week, you were showing it around, so maybe you can jump off with the first question and then we can just riff from there.

Kate Campbell:  
Wonderful. Yeah. Nick, I was wondering just to start off the conversation, your book's called Just Keep Buying, are you able to outline your case for the book and maybe some of the arguments behind Just Keep Buying instead of buy sometimes, sell sometimes?

Nick Maggiulli:  
Yeah. So I mean, there's obviously a section on market timing in general, but the whole premise of Just Keep Buying and the subtitle's Proven Ways to Save Money and Build Your Wealth, and what it really is, it's like a data-driven guide to personal finance investing. And instead of going with gut feel and what sounds good, I actually test a lot of these things that we've heard in the media and financial journalism industry, all that. I just test a lot of these beliefs we have with the data, and just say like, "Is that actually true?"

Nick Maggiulli:  
For example, one of the beliefs I test is, they say there's this massive retirement crisis in the United States and people aren't saving enough in the [inaudible 00:02:12]. There are some subset of people where that's definitely true, but if you look across the board, that's just generally, isn't the case. In fact, retirees generally over time, get wealthier and they don't end up even pulling down. Only one in six retirees pull down on their principle. Most of them just live off their... What we have in the U.S., the social security and their investment return, so that's counterintuitive.

Nick Maggiulli:

There's supposed to be massive retirement crisis, yet most retirees are not even spending all their money. So it's not even spending down any of their money really. So it's kind of interesting, but it's a host of a lot of those types of things. And the case of, why should you buy sometimes, just buy all the time. It's just market timing is a futile exercise. And so I have a couple of chapters on that where I show that across different asset classes I show that's true. And then I show, especially with like U.S. stocks, trying to buy the dip and do all these fancy things, it doesn't really work in the long run for a host of reasons, but I can definitely dig into why that's true more later.

Owen Rask:

So Nick, I did see on your blog, I saw buying the dip is foolish. So many of our listeners wait, they're like, "Something's around the corner. There's a crash coming." The news headline said, "There's someone that I saw somewhere said something." What are some of the rules I guess, that our listeners should absolutely know about when it comes to thinking this way, thinking about waiting, thinking about going all in? I'm sure you've come across this and then you've seen it in the data.

Nick Maggiulli:

Yeah. So my book has all these, every chapter basically comes up with a rule at the end. So there's like a final conclusion where you can read all the rules and get a basic idea what the book's about. But in this particular instance, I think the one rule is, buy quickly, sell slowly. And what that means is, generally since markets rise over time, by buying quickly, you want to invest as often as you can, that's another rule as well. It's like the more often you're investing, the sooner you're investing, the more likely you're going to participate in the market's growth.

Nick Maggiulli:

And of course you're saying, "Well, Nick, what happens if there's going to be a big dip? And I wait and I time the dip." That's going to be better. I'm like, "Yes, you might get lucky and do that and has happened, but most of the time dips are rare and big dips are especially rare." So even if you get it right now, you're probably going to get it wrong later because you're going to expect a dip to happen. You're going to be so worried about everything that's going on and then it doesn't happen. And I think the best example of this is if you just Google like stock market overvalued, and then insert a year like 2012, 2013, or whatever you say, stock market overvalue 2012, stock market overvalue 2013, you'll find tonnes of articles written in that year that tells you why the U.S. stock market's overvalued or any... I mean, you probably can do this almost any stock market, right?

Nick Maggiulli:

But this is especially true in the U.S. where they've been saying it's been overvalued for a decade and yes, valuations are elevated relative to history. I'm not going to debate that, but yields are also lower than they've ever been in history. So there's maybe some logical reasons why this is true. But the point being that if you're trying to time the market and do this stuff that

you've been saying that there's been people saying to buy the dip since 2012, 2013, and they haven't had a sufficient dip to buy until March 2020. That was like the first really big dip we've had in like a decade. The other ones have been a little bit under 20% mostly. So that's kind of my calendar to them. It's like, yeah, you might get it right now, but you're going to get it wrong later, statistically, at least.

Owen Rask:

I might just expand on that a bit. I see that, I hear that all the time when I'm speaking to investors. It's either too high or it's too low. And Morgan Housel has this saying, if you're too scared to invest when it's near the top, you're going to be way too scared to invest when it's at the bottom as well. So the behavioural element of this is so profound too, right?

Nick Maggiulli:

Yeah, of course. I mean, so I'm talking about the data pieces of it and that's why Morgan's book is so useful because a lot of stuff he talks about is the behavioural side and it's much harder to quantify that because you can't, and you have to do randomised control trials of people during the dip and okay, you're going to buy, you're not, it's just not really possible to prove a lot of this stuff. But I'm saying when you take that behavioural logic and you add the data to it, it just makes it so much richer. Because you're like, "Look, statistically, like 80% of the time, you're going to be better off just investing now than waiting or slowly waiting into the market." And if you take that with the behavioural time, the only time when slowly going into the market outperforms is when the market's dropping and that's when you're the least enthusiastic to buy anyways.

Nick Maggiulli:

So if you combine those, you're like, "Wow." So there are cases where going slowly into the market makes sense. But in those cases, the market's dropping every month and it's like it's bad. You're not going to want to buy, you're going to be some completely not want to buy. So I think the behaviour stuff definitely matters.

Kate Campbell:

And do you find that when people have a better understanding of the data and the history and the reasons behind all this, it's easier to buy at any time rather than waiting for this particular one event?

Nick Maggiulli:

A little bit, yes. Some people can be swayed by data. Other people are just going to have this feeling like... Human behaviour is very difficult to overcome with evidence. And that's why my favourite investment quote is fear has a greater grasp on human action than does the impressive weight of historical evidence. And it's a very true statement because fear, that fear of a market crash, all that, is going to really control people more than all this evidence. But I obviously am very evidence-based, so I have to use that evidence to overcome that type of stuff.

Nick Maggiulli:

Just like the fear of flying. You're more likely to die in a car crash than you're to die in an aeroplane crash. This is true. I mean, there's tonnes of data on this giving you control for a number of flights and all that stuff. It's just completely true. Yet, people, every time they get in their car, they're not panicking, but every time... There's a lot of people that are scared to fly in planes, right? And I understand that, but it's so safe now. And it's been safe for quite a long time now that it's just the evidence's overwhelming and there's something you can't get over. At the end of the day, people are just going to behave how they're going to behave.

Nick Maggiulli:

And I'm just trying to bring some light to like, "Here's what some of the evidence says." And looking at this evidence can help people. And there are people I've talked to, I said, "I did this decision, I was kind of worried at first, but I just said, hey, trust the process." And for the most time it's going to work. Most people are going to do this. And if you've been reading me since 2017 and following along, you would've done well so far. I mean, we haven't had another major... I mean, even the major crash we had in 2020, I would say it was warranted because the world economy was stopping. So that's a little bit different.

Owen Rask:

So Nick, what did you find then when it comes to valuations? So you mentioned before that valuations are stretched historically, but maybe that's not just representative of the stock market. Maybe there's other factors at play here. Do valuations matter when it comes to investing in a broad basket of securities?

Nick Maggiulli:

Yeah, of course valuations matter in the short term especially, because at certain points, like once valuations are high enough, future returns are lower. And if you look at that, there is some evidence of that. The issue is what are you going to do about it? Like you can say, "Oh, I'm just going to move to bonds." But there's no guarantee that that's going to... Valuations have been... I think the CAPE first hit 30, I remember the CAPE ratio, I think the average is 15 for most of its history. First hit 30, I think like 2017 or something, or something like that. And it's been above 30s for the last five years. So you've missed on a massive rally. It's basically doubled, over doubled that time. So even if there is a crash and it comes down, do I think it's going to be 50% down and then stay down? Probably not. So you've missed some sort of rally in the process.

Nick Maggiulli:

So of course valuations matter, but it's tough to know and it's very difficult to time based on them. So my argument is just to keep buying over time and just be diversified, obviously. Maybe valuations in the U.S. are elevated, but maybe they're not in Europe or other places. Enough people made those arguments. And so owning other asset classes, not just having all your money in just U.S. stocks or just foreign stocks or whatever, being diversified will allow... You're diversifying across different valuation regimes is a way of hedging your exposure. And that's what I would recommend, because we don't know. And valuations are still elevated now, but they could get much more elevated, right? What are they going to run to? I don't know. And so

we don't know the future. And so the most prudent thing you can do is just to keep buying, keep the faith, diversify and see what happens.

Kate Campbell:

Yeah. And one of the statements you made in the book was that most markets go up most of the time. And I know you've looked at a lot of different markets across the world. Are you able to expand a bit more on this statement? Because I know a lot of people do get scared that when they look at the history of the market that was in the past and the future's not going to be like that.

Nick Maggiulli:

Well, I mean, of course that's possible, but we have over 100 years of data now across multiple countries where equity markets have generally gone up into the right over the long term. So of course in a decade valuations matter, even on a decade period or markets aren't going to necessarily go over even in a decade or 15 or even 20 years, that sometimes happens. It's rare, but it happens. But over a longer time period, they generally have increased over someone investment life. And so if you just look over, the most equity markets go up most of the time. And I think that's true of real estate and most things, right? Obviously there are exceptions and you'd be like, "Well, what about Japan?" Well yes, if you had been a Japanese business person, you sold your business in 1988 and you bought right at the peak in '89, all your money in it once. That's like the worst investment decision in human history without realising obviously what was going to happen next.

Nick Maggiulli:

But how many people are making those decisions, right? Most people are probably buying overtime, A, that changes the risk a little bit, B, they shouldn't be putting it all into one asset class. That's also what's kind of risky. So if you've been buying U.S. stocks and Japanese stocks and maybe Japanese bonds and a host of other assets, farmland, whatever else you had, you have had a very different financial picture than someone who put every dollar they had into the Japanese stock market in '89. So Japan's an exception. Greece is an exception since '08. Russia is an exception, 2022, we saw a drop like 80% in a month. And so these things happen. Trust me, I know them. I have to know all these horror stories because I know I have to have counter arguments for this.

Nick Maggiulli:

So these kind of things definitely happen, but it's like if we only invest based on what might happen, we would never invest at all. We would be like, "Oh, I can't ever get into this." And so you have to get over that fear and say like, "Hey, I think the world generally is getting better." Yes, there's a lot of stuff happening. Yes. So we're seeing a lot more stuff happen now because everyone has a phone and they can document things and the world looks like it's getting worse, but that stuff was happening, just wasn't being documented. We're just seeing it now. And I think that's the difference. So you got to realise like, I think the world generally is getting better. I mean, across the world, people are living longer, health outcomes are getting better generally. So remembering that positive progression of humanity is key to a lot of this.

Owen Rask:

Nick, I might ask a follow-up to this if I may, which is, how about the impact of falling interest rates? This is something that I get a lot in investing circles is, how has that played into asset class going up over, say the last 30 years?

Nick Maggiulli:

Yeah. And I think that's a great point because obviously as rates drop, people are going to say, "What are my alternatives? So I want to put park my money in something." Most sovereign debt around the world, non U.S. is negative yielding at this point. So there's like, why would you own this at all? And so you're like, you just hold cash. The other option is okay, maybe you own U.S. bonds and that's not paying much at all either. So rates are starting to go up a little bit, but still I don't know if the 10 years at 2.5 or maybe a little bit less than that, they're just not paying a tonne. So because they're not paying a tonne, you have to... The 60-40's now the 75-25 stock bond breakdown.

Nick Maggiulli:

So what's happened is you have to take on more risk in order... You need to get yield, you need return. And so to do that, you have to risk up and there's no real way around that. So that is a fair argument. It's like we could be in a melt up and if freights stayed down and stay dead forever, we could be more of a melt up, price can go even higher, but what's going to have to happen is that expected future returns on stocks obviously have to come down as a result of that. So I think what's happening is just like the market is moving to a different equilibrium and maybe if rates stay low for a long time, we can just expect lower stock returns going forward.

Nick Maggiulli:

But at the end of the day, what choice do you have? Are you going to be like, "Okay, I'm going to go to bonds." Bonds aren't paying. So at the end of the day, it's always about what action can I actually take? So it's a good argument people make, but what can you actually do about it? Is there some other magical asset class that's still paying 7% real a year or something like the U.S. stock market did over the last 100 years? No, there isn't. I don't know of one. And maybe you can find like, "Oh, I know this small company." Okay. Yeah, but that's... We need something that all investors can use. Is there a general asset class that's going to do that? I don't think so. And so because of that, you just have to own the broad basket and you're just going to get what the world gives you. You're going to get beta, market beta across the world. And so that's what you have to accept.

Kate Campbell:

I was just interested in more of the reasons that why we should be investing, because there's a million reasons why we shouldn't, but I thought you outlined three really good and really clear ones in the book that I'd love you to talk about a little bit more.

Nick Maggiulli:

Yeah. So I think if you look at the data on why people invest, okay, you can say they ask people, "What are you investing for?" And they ask them kind of different motivations, "Oh, I'm saving for vacation. I'm saving for my kids, et cetera." The only thing that actually moves the needle and actually makes people want to save more and invest for the future is saving for themselves. So when you're investing, you got to be a little bit selfish. And they done experiments on this where they take your face. I don't know if you guys maybe had this in Australia, but it's a thing called Face App where you took a picture of yourself and then it aged you to make you look really old. So maybe you guys have seen this technology or something, but basically they did something like this before that thing became popular. When people saw these older faces of themselves, they were more likely to invest, they would increase their savings or things like that. So investing for the future is one thing that's really important.

Nick Maggiulli:

The second is because of inflation, inflation's going to eat away. And right now in the United States, inflation is 8.5% a year. So inflation's just going to eat away at your purchasing power of your dollar. So just saving money's great. And that's actually most of the battle, most of the problems that people have like, "Oh, I can't invest," because they probably don't have money to invest. So for the fact that you can even save money, if it's just sitting in cash, you've already done like, I'd probably say 90% of the work. Getting invested is very easy. It's clicking a couple buttons and money moves around and you're good, right?

Nick Maggiulli:

Obviously it's not easy to hold through drawdowns and all that and crashes, but let's just say it's easy enough to get invested. So the hard part is getting the money in the first place. So as inflation's just eating away at all of that, the main takeaway there is that you're just really kind of a fighting against that by getting invested in income-producing assets. And the third thing and also probably the most important is that you're replacing your human capital with financial capital. Now, what do I mean by that? Human capital is like your skills. So imagine you took all your future earnings throughout your life and you brought them back to now, like there's this time value of money idea of like if you're going to pay 4,000 or \$50,000 a year for the next 20 years, that's like a million bucks.

Nick Maggiulli:

Now, you wouldn't pay a million dollars for that now because obviously the money in the future's worth less. So you discount all that, whatever that is. Let's just say that's like half a million bucks now or something. Someone pay you half a million dollars now to have all that over that payment stream over the course of your life, right? So that's going to go down over time. Every less year you have to work is less human capital. You have less time to earn money. So as a result, you need to find ways to pay yourself by investing that money so it's going to pay you. So you're replacing yourself with a financial asset equivalent. So you can imagine like let's say you can save, let's say 10,000 bucks in the next year, but your investments will earn you like \$1000.

Nick Maggiulli:

By the end of your life, ideally, maybe you can still save the 10,000. Now your investments are going to earn you like 40 or 50,000. So they're going to be paying you to offset your income. And then when you don't have income anymore, they're basically paying for you. It's like you're working still, even though you're not working. So it's a complex long type of thinking, but you really have to think of your assets as like replacing yourself so that you can retire and get paid and all that. And obviously every country's different. I don't know what it's like in Australia. What type of like social safety nets or social security type system you guys have in terms of payments and all that. But either way, just even outside of that, I think people should be investing, so they have their own capital do what they want in case those types of safety net aren't enough to provide for maybe the lifestyle you want.

Owen Rask:

I think that's a great way to frame it. You have basically two sources of income for the rest of your life. One is a salary and one could be your assets paying you. Passive income is universal in terms of what people want. When we produce content, for example, you put the words passive income in the title, you get twice as many people clicking on it because they're just interested in that thing. You say that there's no one path to wealth. Can you just explain some of the paths that are worth exploring or some of the differences that you've come across in your time that have been effective?

Nick Maggiulli:

Yeah. So I mean, I say there's no one path to wealth because I've seen people get rich in many different ways. Some people own real estate, they have a bunch of properties, physical properties. Some people buy stock, index funds, they own that. Some people own farmland, some own a mix of these things. There's a lot of different ways to do it. And I don't want to say there's just one way. I think generally the correct way is to own income-producing assets, assets that are paying you over time. And that could even mean like creating your own asset, you create a product and you really reinvest in your business and it blows up, that's also a way of doing it. So I don't like saying that there's a right and wrong way. And I think anyone who says that is being a little bit disingenuous because for me to say like, "Oh, you have to own stock index funds. That's the only way to get rich." It's not true.

Nick Maggiulli:

There's all these real estate investors who would say, "This guy's an idiot." It is not true. And I also think the opposite's true. Everyone's like, "Oh, you have to do real estate. It's the best." And that's not necessarily for everyone, you got to think about what are the costs and trade-offs of all that, right? There's obviously some hassle of being a physical real estate investor that maybe some people wouldn't want to deal with. I don't want to deal with tenants or things like that. So you got to think about things like that. So in terms of what works, it's just that you got to figure yourself out what you really care about. Some people love property, they love doing that type of stuff, running it, fixing it up. Maybe they're very handy.

Nick Maggiulli:

Some people are very hands off and like doing other things with their time. I think for me to maximise my time, it's putting money into an index fund and then not thinking about it and spending my time writing blog posts or other material, or other things, trying to create content. I think it's more useful for me to do that. It's the most valuable thing I could do with my time. So I think for all investors, what you need to do is just find what works for you. Obviously try to minimise the time there, assuming you don't love doing it. And then spend the time that you free up by doing that to build wealth and bring in more income so you can invest more. That's really what's most important, I believe.

Kate Campbell:

And the point find what works for you is really the key part there, because so many people they'll hear one-off story in the media or through a friend of a friend of that person made wealth doing X, Y, Z thing. And that does not necessarily mean that they can also make wealth that way as well.

Nick Maggiulli:

Yeah. So I don't say, "Oh, become a blogger. That's the way to do it." I'm not telling people to do that. Actually I don't think it's very effective. I tell you so, but that's what I'm saying. Figure out what works for you. And obviously that's going to take some experimentation. It's not easy, but if you own a property and you're like, "Wow, this is such a hassle. I can't deal with this." Then maybe you shouldn't be someone who's owning physical property. Maybe you should be someone who's owning something that's very laid back. Or you got to think about that and figure out what you like, what you don't like. And that's really the hardest part really of the journey.

Owen Rask:

And Nick, one of the things that I'm constantly butting heads with is that active versus passive investing is how most people frame this. But if we just think about the time and the effort and the knowledge that goes into trying to actively pick individual stocks versus these [inaudible 00:20:50] you mentioned they're like index funds. If you use an index fund that probably frees up time where you could go spend time with your family, do other things. So maybe can you outline the arguments against directed share investing from the dollars, but also from the data that you've crunched to understand this problem in this equation?

Nick Maggiulli:

Yeah. So buying individual stocks directly and trying to pick stocks, I think there's two big arguments against it. And I think the first one I'm assuming your audience has maybe heard a little bit of, and it's basically, you just look at the data and most stock pickers, active managers, whatever you want to call them, don't beat the benchmark, their underlying market, that's their benchmark performance after fees. It's like 75, 80% or something, will not beat the benchmark after fees. And there's reports you can look up called SPIVA in the U.S. It's S-P-I-V-A, SPIVA. Those reports are like the gold standard for comparing active manager performance to the benchmarks. And a lot of times after three to five-year periods, they just don't win out. It's very difficult to keep winning over time. And I think the data shows that roughly 10% of people have scale in this area.

Nick Maggiulli:

So if you assume 10% of scale with certainty, 10% don't have skill with certainty we can identify, that means like the middle 80%, four out of five people that are stock picking, we don't know if they're good and it's really tough to do that. So I think another thing about that is like, I call this the existential argument is the second argument why you shouldn't pick direct shares or individual stocks is like, you don't know if you're good. And that's what's tough. You can do this for like for example, if myself and you went and we each picked, let's say 10 stocks for the next year. And I fire perform you. Does that mean I'm better? I don't think we can say with certainty, I'm better. Now, if we go onto the basketball court and play for two hours, and if I beat you by 50 points, it's probably pretty obvious that I'm better. So you could see pretty quickly.

Nick Maggiulli:

If I went against, let's say LeBron James or something, you would know he has skill and I don't. It's very easy. The feedback loops are short. We know who has skill, who doesn't. With stock investing, the feedback loops could be as much as 10 years before you know if someone has actual skill, right? It's really tough to know that. And that's the real issue I have, is like looking in the mirror every day and being like, "I'm spending all this time doing this and I don't even know if I'm adding value and I could just be buying the S&P 500 or a world stock index fund, and just go about my life and find the areas where I know I add value, because I'm going to get paid more and that extra money's going to be worth more than I can make on my fund."

Nick Maggiulli:

So that's another thing too, to look like the return on your time, return on investment. Obviously if you have a million dollar in portfolio, if you can get an extra, let's say you're getting a 10% return, that's 100 grand a year, that's decent. You get an extra 1% on that, now you're getting an extra \$10,000. The question is, well, how much time did you have to spend to get that extra 1%? That's the question. And so if you don't have to spend a lot of time with that 1%, that's great. But what if you only have \$10,000 or let's say you have \$1000. And that extra 1% is not a lot of money when you think about it, it's like 100 bucks. It's like what? That's nothing. So \$100, you could easily make that in like a week probably doing some side gig or something, maybe even a day, depending on your hourly rate. So you could easily make that where you couldn't earn that in your investment.

Nick Maggiulli:

So I think that's the key is to figure out like, where's your time being best spent? And that's a big focus I have in the book. And I say like, "Where are you spending your time and energy and why that matters?" And so I would just think about that a little bit more before going deep into direct share investing, and just like, you want to do it for fun, that's fine. You like it as recreational, fine, put some of your money in it. But most of the people I know that do it, they keep a bulk of their wealth in just like index funds and they're very prudent and they like to play with a little bit extra money and that's fine. I don't think there's anything wrong with that. Having fun with that. But I think if you're going to do it bulk of your wealth, you need to really question yourself as like, "Hey, is this really worth my time?"

Kate Campbell:

Yeah. That's interesting because we spend a lot of time thinking about if active managers are performing and if our Super Fund in Australia is performing and how companies have performed, but we don't spend that much time talking about whether we've actually performed and if we've actually done a good job ourselves. So I think that's a really interesting way to frame it, if you are weighing up between the two and I guess it doesn't have to be one or the other, you can actually, as you mentioned, invest in ETF/index funds and individual shares as well on the side.

Nick Maggiulli:

Yeah, of course.

Owen Rask:

Yeah. You don't need to get parochial and have... This is what investors tend to do, is they have like a view that they're going to become stock pickers, and then they can't invest in index fund. When really, you can do both. You can definitely do both. You can do many different things. And it's probably important to do all of that. Maybe I'll ask the next question of Nick, Kate, and then you can do the one following that, because I know you want to do that one, which is, tell us the biggest lie in personal finance today. What do you think it is?

Nick Maggiulli:

The biggest lie in personal finance is that you can cut enough spending as a way to grow your wealth, like cutting spending is a way to get rich. And I just don't see it in the data. It's just not. Don't get me wrong. You're like, "But I know this guy who reused his dental floss and made his dish soap at home and it didn't... I don't know, used the same trash bag for three weeks at a time." I don't know. You can come up with people that are very extreme and do this, but they are completely exceptions to the rule. And the reason I say that is because you look at the data, savings rates, which obviously are somewhat correlated with wealth in the long term, savings rates go up with income.

Nick Maggiulli:

The higher income people have, higher savings rates. And if you look at the spending data, it's like, as incomes increase, spending does go up. But it goes up at a slower rate. And like what I call it, the law of the stomach, very simply like if I 10Xed your income tomorrow, are you going to eat 10 times as much? No, you might spend a little bit more. You might go to nicer restaurants, your total food spend would probably go up, but would it go up 10 X? Probably not. You could only eat so much. There's only so much. So I call that law of the stomach. And it's very simple just to understand why spending doesn't increase as much as with income. So the difference is savings and that saving gets invested and then you build wealth, right?

Nick Maggiulli:

So it's pretty obvious to me that this is clearly the case. And I'm not saying it's easy to raise your income, but it's the only long-term sustainable path. Short term, you can cut spending and get

some extra money, but long term, you have to use income to get out of there. And I think that's something that people, "Oh, you're peeing away a million dollars when you drink your daily coffee." These are such silly arguments and they get headlines and that's great and all, but it's just not sustainable. And I've cut the data five different ways to look at this and it just doesn't move the needle when you cut spending. So I wanted end this line in finance and let's move forward as society and say, "Okay, what can we do to raise income?" And that's where we need to focus.

Kate Campbell:

Yeah. And one of the interesting observations I saw in your book was about the stress around not saving enough is more harmful than the act of saving itself, which I thought was really interesting. And you had a few stats as well there. Are you able to expand on that point a little bit?

Nick Maggiulli:

Yeah, I think there's just some data and studies they've done that show that money is one of the top stressors for most people, at least in the United States. I'm not sure where it is worldwide, but it might be true of other cultures and countries as well. And there's just so much stress around it to the point where even people who are arguably rich, who are like the actual millionaires and everything, they still are not worried if they're going to have enough money. And I think that's the point. Even as people get rich, they still don't feel like they have enough. And I think that there's just some evidence that being stressed about money it's not always necessary. Now, there are people... Yes. If you're truly struggling making ends meet, you have credit card to all this, that's a very real stressor. I'm not trying to downplay that. This is definitely true. But there's a lot of people that have nothing like that going on, not even close.

Nick Maggiulli:

As I said, there's a millionaires that are still worried about having enough money. And that's the kind of thing that's shocking to me that in today's day and age, people would still be like, "So you're doing fine." And that's the stuff that I just don't understand. I don't really get it. There is some arguments I've seen someday that says like, "Oh, they're worried about like a possible, really negative health outcome and they're going to have to spend." In the United States the health coverage isn't as good as other countries. So because of that, they're worried they're going to have to spend hundreds of thousands of dollars. And of course that is a fair point, but it's very rare. It's very unlikely that something like that's going to happen. You're going to have to spend thousands of thousands, hundreds of thousands of dollars out of pocket, and it's going to ruin you financially. It does happen. But as I said, it's quite rare. So I don't fully understand all of it, but I'm trying to dig into the data to understand where it's coming from.

Owen Rask:

Actually Kate sent that to me. I think it was a week or two ago when she read that in the book, she's like, "You've got to read this." And she highlighted it. It's such an interesting thing. I think we do this in multiple aspects of our life. You mentioned personal finance being a big stressor. Here in Australia it definitely is. People are worried about money. People are worried about

probably money, more than anything else, other than say health, as you also mentioned. How do you know then, Nick, how do you know how much is too much saving? We see in the Financial Independence, Retire Early community, people struggle to switch off the savings mentality. And then obviously we've got a lot of other people that are worried they're not saving enough. How do you find the balance? And I guess not necessarily, how do you find the balance, but have you determined where is that balance?

Nick Maggiulli:

It's going to be different for every person. I mean, for some people there's not going to be anything they can really do, because they're just wired to want to save. And it's like little things. Like, for example, I was just joking with my mom and sister recently, when I go to restaurants, I don't really look at the price. Obviously like bottles of wine, I'm not going to be spending \$1000, I'm not rich. That's where I spend my money. This is \$8 T-shirt. I don't own a car. I keep a lot of my expenses very low. But when I go to a restaurant I'm like, "Oh, the salmon's \$10 more than the burger." If I want the salmon, I'm getting the salmon.

Owen Rask:  
Nice.

Nick Maggiulli:

But still, every time I go to McDonald's, I order off the dollar menu. Even though I easily would spend more elsewhere, when I go to McDonald's I order off the dollar menu, because as a child, that's what I always did. And so to this day it's like ingrained in me. I can afford that \$6, whatever chicken sandwich, whatever that's nicer sandwich they have. But I still order off the dollar menu for some reason. And that's just an example, an anecdote of like, some people are just going to be just wired to want to save. And even once they hit retirement, it's very difficult for them to spend. And we've had clients like that where it's like it's really tough for them to go a flip 180 from saving 60% of their income to spending any of it.

Nick Maggiulli:

Because now they're not saving, but they're not only saving, but they're not going into the negative and it's really tough for people. And that's why I think in chapter two, I talk about this, only one in six or one in seven retirees are actually pulling down principle at a given point in time, which is kind of shocking, but it's like, people just don't really like spending money because they're worried about some crazy outcome and not having money and they have no way of earning money again. And I understand that to a degree, but what's the right amount? I don't have an answer for that. I really don't. I wish I did, but you have to figure out like, "Hey, I'm going to be okay." And look at some of the data and say, "I'll probably be fine." And then just enjoy your life a little bit.

Nick Maggiulli:

I think anything that's too excessive is if it really starts to affect your life in a negative way. If you can't enjoy a moment because you're always thinking about money, I think that's where it's getting problematic. So I think you going to enjoy your life a little bit. Obviously there's some

people as like we've discussed previously who are in really bad shape, they have tonnes of debt, credit card debt, student loan, whatever, and it's going to be tough. You're going to be stressed no matter what. There's not much you can do until you get out of that situation. But there's a lot of people who aren't in that situation who are still stressed and those are the people I'm talking to.

Owen Rask:

Yeah. It seems to be like... Nick, some of the things you touched on when you were talking about index funds too, before you basically said, if you have \$1000, the difference of 11 versus 10%, it's not that great. But I feel like this comes back to understanding where you are in your life as well. If you're earlier in your journey, maybe getting a bigger shovel, i.e. getting a bigger income, trying to earn more, is vital rather than trying to save that extra dollar to invest it in an active fund or something like that. Pick your wins basically, pick where you want to win and win big and then try to put the other stuff on autopilot.

Nick Maggiulli:

Yeah, I agree. That's why I say like, don't worry about your asset allocation that much when you're younger and relatively poor to your future self. So I have a chapter one's called saving's for the poor, investing's for the rich, and that's an absolute statement, but it's also a relative statement in the sense of, when you're 22, I assume you're much poorer than you're going to be when you're 42. Assuming nothing, borrowing some crazy thing. Most people have a career, they save money. So because of that, realising how you invest your money at 22 is almost irrelevant, but how you invest your money at 62 is probably everything in terms of like your end-of-life stuff. But what you're doing for a career at 62 is probably not that relevant, but what you're doing for a career at 22 is probably everything, right? So it's like what you're talking about, this shovel idea of picking wins and all that, that applies across the life cycle as well.

Kate Campbell:

Yeah. I think that's really important to keep in mind, especially because I know many of our listeners struggle, especially in their 20s when they're getting started or picking which brokerage account and picking which initial investment they make and really the most important thing is just get started. And I guess as you'd add, just keep buying as well.

Nick Maggiulli:

Mm-hmm (affirmative). Yes, exactly. So it's just a constant disciplined approach to doing it and figure out where you're spending your time. That's why I talk about in chapter 21, your most important asset is time. And a lot of that's like, where are you spending your time and energy? And that's what I didn't realise. I used to think like you're always told, "Hey, start early, start investing early." And of course that's good. I'm not saying that's bad advice. I'm not discouraging that. I'm saying do that, but don't spend a lot of time on it. Just put the money in there, get it going, and then stop wasting, stop looking at it. Stop obsessing it. Don't check your balance throughout the day. It's absolute waste of time.

Nick Maggiulli:

Thinking about one day when you're 60 years old, you're going to lose and gain more than that in a single day. And you're going to laugh at how silly it was that you're spending all this time looking at your phone about your \$100 balance or \$1000 balance. It's just silly. So my point is don't spend time on that. Focus on building your skills and work on your career. I think that's more important. Do some soul searching, figure yourself out. I think that's more important than what your asset allocation is at age 22.

Owen Rask:

I think that's so important, Nick, you are here as the guy that's done all the numbers, obviously very intellectual, very bright. And you are coming here to tell us like, actually you can step back and look at yourself to determine what's important for you and how finance can play a part in that. And I think that's so important. We also mentioned Morgan Housel who we've had on the show before. I feel like your book is a perfect compliment for his book because he's talking about things that, as you mentioned, can't be quantified and you are bringing this totally different brain to the conversation as well. And they both meet in the middle somewhere. And I feel like both skill sets are really important.

Nick Maggiulli:

Yeah. I mean, I wish we could quantify a lot of stuff because we could prove and disprove pieces of some of the things he's talking about, but I say like... Someone even asked me, "Oh, I just bought your book and Morgan, which one should I read first?" And I said, "Read mine first and then Morgan answers everything that this mesh of data can't answer." Because there's obviously, for me to say behaviour, doesn't matter, it'd be foolish obviously, it's just harder to show how it matters. And I think for me, I have to, when I make arguments, I want to be like... And trust me, Morgan's like... He's the best writer in our space. He knows his stuff. A lot of the stuff makes absolute sense. So it's just for me, I need to like... I love data. I love crunching and saying, "Okay, well, this is what it looks like this or that, et cetera." So it's very interesting.

Owen Rask:

Yeah, for sure. And is the best place for people to get your book, Just Keep Buying, Amazon? Because I noticed on your website of Dollars And Data, is that the best place to go?

Nick Maggiulli:

Yeah, so Amazon's great, I know. I think in Australia we have Booktopia. I think that's another big place to get it, especially in Australia, because I know I have that listed on my landing page and everything. So those are probably the two big ones I would say in Australia, but just generally, Amazon can probably get it to you for basically anywhere.

Owen Rask:

Yeah. Yeah, of course it can. It's here in Australia, even Amazon has made its way through the ecosystem and definitely Kate's got to be one of the number one subscribers for books [crosstalk 00:36:15].

Kate Campbell:

I was going to say, Owen, you have to mention Booktopia, they're an Australian book sellers.

Nick Maggiulli:

[crosstalk 00:36:20]. I repped it, I know my stuff. I know Booktopia has been on the... I've never bought from Booktopia-

Kate Campbell:

Owen's straight to Amazon.

Nick Maggiulli:

... but if I ever come down there, yeah, exactly. So got to rep both of them.

Owen Rask:

Yeah, no, that's great, Nick. And we really do appreciate you taking the time. And I know you've got a lot of interviews talking about the book and you're busy creating your own content. So we'll put links in the show notes. You're also active on Twitter, dollarsanddata, right?

Nick Maggiulli:

Yep, @dollarsanddata, it's all lowercase. Find me there. If you have questions, feel free to DM me. I'm always taking DMs from people and try to respond to everything I can. So feel free to reach out and everything. Appreciate you guys taking your time for this, so thank you.

Owen Rask:

No, we really appreciate, Nick, and Kate, as always, thanks for joining me.

Kate Campbell:

Thanks for listening, everyone.