Actionable intelligence to live a Free & Inspired Life

The Solari Report

# October 15, 2020
# 3rd Quarter 2020 Wrap Up
# Equity Overview, Blockbuster Chartology, & Financial Planning with Leith Harmon

**Summary:** For the last two Equity Overviews, I received a fair number of questions regarding financial planning. Consequently, I have invited several experienced financial planners familiar with The Solari Report to join me for the upcoming Equity Overviews. For the 3rd Quarter, Leith Harmon of Counsel Fiduciary, LLC, joins me for an in-depth discussion of financial planning. Leith has significant experience helping individuals and families plan and organize their finances and is a serious student of risk management—both financial and non-financial.

Please join me for the 3rd Quarter 2020 Wrap Up: Equity Overview with the quarterly blockbuster from Rambus Chartology. Check out the web presentation here for the quarterly financial charts and Rambus Chartology when posted on Thursday.

I will review the equity and precious metals markets for the year to date. Silver continues to outperform, with tech stocks a close second. I will look at how the NASDAQ performance relates to the economic warfare underway, and the recent announcement that global billionaires have passed US$10 trillion in net worth as millions of small enterprises around the world are destroyed, and the prospect of global famine grows. If you have not yet read. The State of Our Currencies, this is essential background for tracking current market trends.

**Bio:** Leith serves as Chief Financial Planner for Counsel Fiduciary. Prior to joining Counsel Fiduciary in June 2006, Leith spent six years at Merrill Lynch providing planning and investment advice. Previously, she worked for twelve years as an independent financial planner and business consultant in New York City and Washington, D.C. Leith received bachelor's and master's degrees from the University of Michigan where she focused on risk management, decision analysis, and applied economics. Leith holds memberships in the Financial Planning Association, the National Committee on Planned Giving, and MENSA. Her philanthropic work includes personal finance curriculum development for the NYC Board of Education.

**Catherine Austin Fitts:** Ladies and gentlemen, welcome to the *3rd Quarter Wrap Up Equity Overview*. I am doing something new this time: In the last two *Equity Overviews,* we have gotten a tremendous amount of questions about financial planning, and I decided, "Let's get a financial planner, but we need a financial planner who understands the real risks."

So, I decided that I would start drawing from the subscriber base, and it's my pleasure to introduce you to someone I've known for a couple of years now, at least. I met you, Leith, but I don't know if you remember, I met you at the Richard Dolan lunch at the 21 Club.

**Leith Harmon:** Yes, that's right. That has been ten years now?

**Fitts:** Yes, it was rather unforgettable. When a financial planner can listen to that discussion and leave looking more coherent than they came, you know they understand our environment's risk issues.

Let me introduce Leith to you. She is the chief financial planner for Counsel Fiduciary in New York. She is very experienced, and before then, she did financial planning for many, many years in New York and Washington. Her business is in New York, but, like all of us, she is mobile and spends a great deal of time in New England.

She has all the traditional skills and tools, but she also knows about the real risks.

So, Leith, with no further ado, welcome to *The Solari Report*, and thank you for taking the time to prepare this presentation. There is plenty to digest into one compact thing, but you have done it. So, let me turn things over to you.

**Harmon:** Thank you, Catherine. I'm so honored to be here with you and your *Solari* family. It is interesting times in 2020, and it is my hope that I can provide some coherence with this presentation. We seek, and hopefully, we will find.

My name is Leith Harmon. My firm is Counsel Fiduciary in New York. I want to start with what I have called my 'spirit GIF' (image format) for 2020, and it is this: I don't remember when I first saw this GIF, but as the year's progressed, it has resonated more and more with me. So, I figured that I would use this as the foundation – the ground – from which we have this discussion. In fact, what I find so wonderful here is how grounded Bruce Lee is.

In researching and preparing for this presentation, I would encourage all of you to look at some YouTube videos of Bruce Lee and what he was able to do in being a grounded and coherent human being.

All around him is – as you would say – incoherence and chaos, panic, fear, and disruption. It is my hope that I can convey a bit of perspective that will help all of us to be a little more like Mr. Lee and a little less like all those around him.

In that context, we will look to lay the groundwork. I think it is an interesting double-meaning here in that Bruce Lee is profoundly grounded. So, look at it in that context. But also look at it from laying the groundwork as being foundational; you don't build a house on sand. So, we want to make sure that we are building a foundation from which to speak. That includes providing some mathematical tools and some historical perspective, all of which are to provide the groundwork.

Then you and I will spend the rest of the session talking about vision and the psychology of money as to how it relates to your financial planning, and then looking at the risks of incoherence – all those people represented in that picture by all those people flying around, hopefully giving you some perspective with respect to a win-win idea (Images and graphs discussed in this report are available at *Solari.com*). We're talking about finding your tribe, interdependence, resilience, habits, energy management, and ultimately, expense minimization – all of these tools – to hopefully help get us more towards Mr. Lee and less so the incoherence that is surrounding him.

So, let's start with the framework. The idea here is that we want to be speaking from the same terminology. I would imagine that if all of you go back to your learning on math, you will remember that there were functions. The function is basically something that happens as a result of something else.

In financial planning, the way we do it at Counsel Fiduciary, is look at having an objective function. This actually comes from the math background that both my portfolio manager and I had studying engineering.

An objective function is to identify something that we not only look at as an effect, but an effect that we want to have. So, we fundamentally have an objective function at Counsel Fiduciary, which is to develop a plan that has a reasonable probability that you do not run out of money before you run out of time. So, all of our work is around addressing and, hopefully, achieving this objective function.

I would like you to keep this in context. There will be a few framework ideas, foundational ideas, and groundwork ideas. I would like you to keep in mind this idea that fundamentally, if you don't care about not running out of money before running out of time (and I recognize that that is a double-negative), and if that is not a concern to you, then this presentation is probably a waste of your time.

Frankly, we find that this is fundamentally the most important objective with increasing risk around it. So, that is where the idea of financial planning under uncertainty comes.

I would also like to start with a few perspectives. If there is nothing else you take away from this presentation, it is to add these to your toolbox, if you will. Recognize a few fundamental ideas that maybe the incoherent people are not necessarily recognizing. The first is to question your assumptions. We are going to come back to this over and over and over again in this presentation. It is something that our portfolio manager and statistician, Susan Middleton, learned the very first day of her Master's Degree program in statistics. They 'drilled into her head' and her classmates to question what your assumptions are.

We all make assumptions. We cannot live in this world without making assumptions. But if you are not conscious of them, then that leads to a higher probability that you might end up going awry.

The second idea that I would like to recognize is that there is no such thing as 'risk-free'; there are only trade-offs. In fact, if we think about Bernie Madoff and how he 'made off' with all of his clients' money, he promised them an S&P return without an S&P risk.

If we recognize that there is no such thing as 'risk-free', if we are faced with Bernie Madoff trying to sell us something, we will immediately say, "Wait a minute, this is not possible. There are tradeoffs here between risks."

You and I are going to spend the second half of this conversation talking about those trade-offs. It is important to recognize that risk-free does not occur in this realm.

The last idea – and it is something that keeps Susan and me very humble – is to recognize that all models are wrong; some are useful, and we only need to look at epidemiology this crazy year to recognize there have been many modelers who have gotten their models very wrong, and most of them have not been useful. So, we try to create as robust a model as we can. Then we recognize that the model is not reality, and we can try to get as close to reality as possible, but we recognize that we have a humility. We realize that the model is not going to address some risks. So, then we have to look outside the model to mitigate them.

If there are takeaways from this presentation that you can apply in every part of your life, not just in financial situations but in all of the non-financial risks and uncertain contexts in which you might find yourself, ask, "What are your assumptions around a certain event or a certain condition?" Recognize that there are only tradeoffs; risk-free does not exist.

Lastly, recognize that even as we create a model, it will be wrong, but it might be useful. So to that point, I am going to start with a little historical context on modeling with concerning financial planning, and this is mainly to help us all recognize what the different ways to address that objective function and to develop a plan where we have a reasonable probability that we are not going to run out of money before we run out of time, and that that requires understanding the environment in which we currently reside.

So, I would like to start by going back in time a bit. I call this 'financial planning under certainty'. There were wars in the 19$^{th}$ century certainly, but there was no penicillin. So from a healthcare standpoint, you had a much higher uncertainty around surviving.

If you notice, I am creating definitions with respect to certainty, and this is with respect to financial planning.

In the 19th century, you will notice in this chart (all charts may be found at *Solari.com*), which represents the value of a dollar. That is the black line. The grayish line is the value of gold. This is just a portion of a chart that we are going to expand on.

You will notice that, more or less, a 1902 dollar was equivalent to an 1802 dollar. You basically could expect that your purchasing power was stable throughout the 19th century.

Secondly, you had an expectation that you would almost work your entire life, and that once you did stop working, retirement was, more or less, three years in a rocking chair on the porch and the rest of your family supported you; that was the extent of retirement.

We can figure that the mathematics around financial planning for a retirement circa 1902 was a straightforward proposition. Remember that our planning objective function does not change. In 1902 to develop a plan with a reasonable probability that you are not going to run out of money before you run out of time is a simple probability assessment. You are living three to ten years in retirement, and your currency was stable.

As an example, let's say that your standard of living was such that everything could be covered with $100 a year, and you wanted to be sure that you had enough money for ten years. Your life expectancy was maybe three to five years in retirement, but you need to cover ten. It's not even algebra; it's ten times $100. If you had $1,000 in 1902, you were financially independent for all intents and purposes.

Now let's look at financial planning under uncertainty in 2002. This is the same chart, but I need to provide attribution. I realize that I did not put attribution on these graphs. These graphs came from a book, *Stocks for the Long Run*, written by Jeremy Siegel, probably 30 years ago for the original edition. Professor Siegel is still a professor of finance at Wharton.

You will notice in this chart where roughly in the first 100 years, the dollar was more or less stable. In the last 100 years of this chart, suddenly the value of the dollar has significantly declined. Where you didn't really see inflation in the 19th century, suddenly in the 20th and early 21st century, we see significant inflation to the point where a 2002 dollar has the purchasing power of a 1902 nickel.

We think about retirement now, and it actually isn't retirement as much as it is financial independence. We may want to be doing something that might provide income, or it may not. We have a number of clients who wanted to be financially independent yesterday, so they are designing plans where they may be looking at being financially independent for as long as they were working, which may be 20 years, 30 years, or 40 years. Further, we are all living longer. The extent to which we are living longer is now uncertain.

So suddenly, what was a very simple arithmetic calculation in 1902, in 2002 it has the same planning objective function, – a plan that has a reasonable probability that you do not run out of money before you run out of time –but now we have to address additional factors. We have a life expectancy that is uncertain and increasing, and unfortunately, we now have a purchasing power risk that did not exist in the 19th century, and that shows in inflation.

So now we have a much more complicated proposition. We need to look at assessing uncertainty in a number of variables, and then assign a probability based on a number of assumptions. The modeling that we do at Counsel Fiduciary is employing probability models that Susan and I built to optimize assembly lines when we were studying engineering. That same math can help us develop a plan in the context of varying life expectancy and varying purchasing power risk that gives our clients a statistical probability and a reasonable probability that they will not run out of money before they run out of time.

This is ideal, and if you recall, I pointed out that all models are wrong and that some are useful. This is useful as long as an outside or exogenous risk does not occur.

Remember, this is circa 2002. So, this was our planning process circa 2002, and we had the ideal plan. Then we recognized there are risks to that plan.

The primary risk you would see in 2002 was a loss of income, and how that is mitigated generally, is with life insurance. I hate that terminology because you buy the insurance and don't get your life back. It is really 'income insurance', right? It is to protect against the loss of the income of one or more wage earners in a household.

The other risk that showed itself increasingly through the 20th century was a risk that didn't exist in significance in 1902. I think it's important to recognize that where you are in time, the probability of various risks is something you need to recognize and manage changes. The need for disability is a perfect example.

Before the mortgage crisis, 40% of foreclosures were the result of a wage earner becoming disabled. 2002 vs. 1902: Most of the accidents that people were surviving and then becoming disabled are in contrast to 1902; if you were hit by a horse-drawn carriage you would probably die. In 2002, you can be hit by a bus, and you probably will live, but on disability.

So, there is an increased probability of the risk of surviving a catastrophic accident. So, life insurance isn't going to cover that disability. So suddenly, at that point, there is a need for disability insurance to cover a risk that did not show itself in 1902.

Then, of course, there is the eternal risk. I think it was Mark Twain who pointed out, "The only thing that is certain is death and taxes." Well, they are here on this chart.

Circa 2002, we are addressing excessive taxation with tax planning, philanthropic planning, and estate planning. I will tell you that if you are to look at the modules for the CFP course, you are basically looking at it. You develop a financial plan, and then you look at mitigating the risks associated with death and taxes. That is planning under uncertainty circa 2002.

We at Counsel Fiduciary recognized a risk around 2006 mainly from me doing a calculation on the Federal debt and realizing there was no way – as of 2006, long before the 'hockey sticks' of 2008 and the 'hockey stick' happening right now as far as an increase in the money supply – that we recognized a rapid currency devaluation was a risk that was always there, but it was a risk that now we are looking to mitigate and manage. So, in 2006 we started recommending gold to our clients.

A whole number of individual factors would come into the determination of how much we would recommend, and that continues to this day.

The idea is that where you are in time, your objective function is the same: You want to develop a plan where you have a reasonable probability that you are not going to run out of money before you run out of time, and then you want to question your assumptions about what the risks are. Some of them you can 'tick off' and say, "It's not something that we need to be concerned about."

In 2002, you would not look to insure against currency devaluation; you wouldn't own gold because it is not an investment. From the Counsel Fiduciary standpoint, gold is not an investment; it is an insurance policy against a currency devaluation. The risk is there in 2002, but it is de minimis. At some point, people recognized, "Oh, here is a risk that I need to address."

So fundamentally, the framework I am proposing is that we have an objective function, and the objective function we operate from is to give clients a statistical probability that they are not going to run out of time. Then we look at all the ways that our model might be wrong, and then we assess those risks; are they important or a critical mass at this point?

Let's look at ways that we can address them. If not, then that is a theoretical risk. Remember, there is no such thing as 'risk-free', but we are not going to address them now.

It's constantly questioning your assumptions and going back. It's recognizing that as times change, your risks are going to change.

I will go back to the slide from Professor Siegel, and now add some other assets. I could spend an hour on this slide, but I am not going to. If anyone is interested in discussing this further, my contact information will be at the end of this presentation. I've slotted some time to discuss this slide and any other questions that you might have with this presentation to *Solari* subscribers. I encourage you to reach out if you would like to talk about this more in-depth.

I could spend hours looking at this slide. I am a math and history geek, so that explains that, I suppose.

If we look at the numbers at the bottom, they are each points in time. Points one, two, and three – you will note – represent a temporary drop in purchasing power of the dollar. If you go down to the year on the x axis, you will note there was a war that happened in each of those first three points: There was the War of 1812, the Civil War, and then World War I. So, you will notice that there is a high inflation (not a hyper-inflation), and then after the wars in the 19th century (not including World War I), the dollar returned to its par, if you will.

What I find really fascinating in this chart, and in going back and incorporating it into this presentation, is something that I noticed. I saw something that is an assumption that is far and wide existent in the entire asset management complex. You can see from looking at the difference going from point #4, which is roughly the bottom of the Depression when Roosevelt reset the value of the dollar against gold. That is where you see the grey line jumping up, and then the dollar and gold were mostly at par in the 19th century. The relationship between gold and the dollar remained the same. You will notice that they are declining in parallel.

Point #6 is when Nixon took us off the gold standard. You will note that the purchasing power of the dollar continues to decline. We are all feeling it, but here it is in chart form, whereas the value of gold was literally let free in 1971. So, the chart shows at the bottom what we talked about earlier as far as the decline in purchasing power of the dollar relative to gold, but the other point that I find fascinating is the spread.

If we start from point #4, with the spread between bonds and stocks, you will notice that starting at that point, the return on bonds is relatively flat. In contrast, stocks continue along a line that is roughly 6.6% over inflation, and it is the same trend as it was in the 19th century, whereas bonds have decoupled.

I will be happy to talk at greater lengths about this later. The point that I want to share with you is that it is somewhat a stable rule of thumb – an assumption

– that there is an equity premium, meaning that stocks are going to earn more than bonds on average over longish periods of time no matter what. It’s an axiom; it’s an axiom that stocks are going to earn more than bonds. Yet if you look at bonds versus stocks, particularly pre-civil war, there is no equity premium.

So, I am more than happy to talk at greater lengths on this if you want to reach out to me. The point here is there is an assumption that an entire industry that is operating within the tools and the field doesn’t even recognize that there is a different environment in a previous point in history where that axiomatic assumption that stocks are always going to have a premium over bonds might not occur.

**Fitts:** Can I mention one thing on this chart?

**Harmon:** Please.

**Fitts:** If you look at point #3 and the dollar, that is the moment in which the dollar began to share reserve currency status with the sterling, but it didn’t achieve reserve currency status until point #5.

It was when it had achieved reserve currency status that you start to see the devaluation which, of course, accelerates with the Nixon shock.

One of the assumptions that we all operate on is a world where the dollar is the reserve currency status. If that should start to erode or disappear, then the question is: Does the dollar have to converge back with gold? And that is a very interesting scenario.

**Harmon:** Right. So if we are questioning our assumptions, we suddenly see the world in many different ways. Ultimately, we are not surprised because we had been looking at the world in different ways.

To your point, that financial system change happened in the 4-5 phase. Sterling had a life of 120 years – maybe even less.

**Fitts:** At least 120 years.

**Harmon:** Okay. Prior to that, was it the French?

**Fitts:** It was the guilder.

**Harmon:** And prior to that there was another financial system. This is one of those blind spots we are endowed with by our education system that financial systems have a finite life, and they change. Yet we don't even have assumptions about that.

I think that feeds incoherence because people don't even recognize that they are operating within it. It's almost like fish in water who don't see that there is water there.

We talk with clients. Inevitably, there will be a new financial system. History shows that they have a finite life. It's indeterminate, but there will be an end to it. So what might that look like, and what might we do to mitigate the risks related to that?

In the interest of time, I am going to move on, but I'm more than happy to field any questions or comments related to this slide or related to the history of financial systems in general.

I'm going to move on and ask some questions I will encourage you to ponder, and maybe even come back to these charts and look at them. These are two portfolios, and this is ten years of their return. Portfolio A, you will notice, always has a positive return in a nominal sense, meaning that when you look at your statement in year one, you have 5% more in Portfolio A, whereas in Portfolio B, you would have been down 10%. Through the course of ten years, you are always positive in a nominal sense in Portfolio A, but in Portfolio B, it fluctuates significantly.

We are told over and over again that inflation is 2-3%.

**Fitts:** That is by people who don't shop for themselves.

**Harmon:** Right. That is a risk, which might justify their incoherence with it.

I like to think they have been solving for 2.5%, and in fact, the models that the Bureau of Labor Statistics uses have varied significantly since 1980. It is a bipartisan affair; it does not matter who is in the White House. The models they use to come up with inflation is literally solved for 2.5%. Most of the time, that does not include food and does not include energy. It includes housing if it is declining like it was after 2008. It was removed in 2004 when it was on an upswing.

Fundamentally, the three largest expenses that we as real human beings can expect – shelter, energy/fuel, and food – are more often than not, not even captured in that bucket. So we are told that it is 2.5, then it's 3, and most people have the assumption that it's 2.5 or 3.

It might take a little incoherence and cognitive dissonance, but it certainly is not something which, for the most part, early 21st century Americans are sensitive to or address. In the 1970's, I remember as a child my mother battled with inflation. I was recently in Argentina when they had one of their many peso devaluations. It's interesting how people's assumptions change, and in an indeterminate way, suddenly people are aware. I'm curious as to when that is actually going to start becoming part of a normative assumption set in America. It's not yet.

Most people say, "Okay, my TV is a lot cheaper than the last one." Of course, we can't eat TVs.

So if we are assuming 2.5%, then Portfolio A looks just fine, doesn't it? Well, what if we looked at average returns? Portfolio A is 4.3%, Portfolio B, which is fluctuating significantly, has a 10-year average return represented by 4.3 and 8%. So, 2.5% inflation – great, you stay in Portfolio A, you pay a little to the tax man, and you have the rest to live on. But what if inflation is actually 6% or even more? Does that change your answer?

That is a question to ponder and look at. Is the risk in any given year worse than the risk of not being able to keep up with inflation?

Quickly, I am going to provide some charts that, later, you can look at more in-depth after the presentation. This is the Siegel chart, but now we are looking at roughly, the last 100 years. You will note that inflation is shown here in the inverse of how it was in the Siegel chart. What that basically means is that to buy something that cost $1 in 1926, you would need $14 today. That is the insidious creep of inflation. I call it 'the silent killer'; it's like hypertension.

Unless you are in Argentina and they are having a peso devaluation, you don't notice it, and yet it's there to the extent that a dollar in 1926 is worth now $.06 or $.07.

So, the idea that fundamentally, we want to make sure that we don't run out of money before we run out of time speaks to the need to make sure that we are invested in things that will accrue real value over time to keep up with inflation. So, this chart is more of a zoom-in, and it shows you the trade-offs with the various investments over the last 100 years.

One of the questions that certainly I would be asking if I was watching or reading this presentation is, "Okay, Leith, you want me to buy stocks. I'm retired. What if they go down? What about that year they are down 10%, or even 20%?"

So, we look from the context of helping clients look at how much of that truly accretive asset (i.e. stocks or equities) is going to outperform over time. However, there are periods of time where it drops. So, we look at an insurance policy against the fluctuation in our clients' stock portfolios. It's not 100% for clients who are retired by any stretch, but to the extent that portion of their portfolio might drop, we are keeping two years of expenses in cash.

This is an emotional risk management more than anything else. The mathematically optimal solution would be to keep as much in equities as possible except for what you need to spend in the next year. But for clients to bear those fluctuations and see those statements and hear the screaming on CNBC that it's the end of the world and whatnot, we recommend that you keep two years of cash so that you don't have to worry about those fluctuations. Except for the period between 1929 and 1933, and certainly all the post-war bear markets, they have returned within two years.

To make sure that you are not running out of money before you run out of time, we are recommending that you own the assets that accrete value (meaning equities) to a larger extent than most people generally expect. But then we look at mitigating the anxiety risk that might drive a client to say, "I'm going to sell this all off," at the bottom of the market. We say, "You are going to keep two years of spending," and we base that from this chart.

The last bit here, – talking from a historical perspective, and then we can talk about the risk environment as of 2020 –I would like to share with you another chart. Now we are looking at the world stock index going back to 1970, along with the announcement of any number of incoherent, unstable, chaotic events happening throughout that period.

My favorite point is a period shortly before 1980 when *Businessweek* had on the cover of one of their magazines in late 1979 or early 1980, 'The Death of Equities'. I think it was a bear mauling a bull or something to that effect. I kid you not, that fantastic bull market that lasted for 18 or 19 years started the Monday after that magazine was on the newsstand.

One of the things in questioning your assumptions is I am the pessimist and Susan is the optimist. I am the one running all the risk scenarios, and she is the rational optimist. I say that specifically. There is a book called *The Rational Optimist*, and I did not include that in the 'Resources' at the end of this presentation, but this chart bears it out.

Even as we feel all of that incoherence and we feel the chaos and we feel the world is to end, still companies make things of value, companies come along and do things better, and it shows up in their stock price.

When I get pessimistic, my marker is to go back. We have a number of clients who are patent attorneys. I go to them and ask them how business is. I figure that when the patent attorneys no longer have any work, that is the point where we need to reassess back to that Siegel chart.

**Fitts:** They should be booming right now, I'm assuming.

**Harmon:** Right. One other piece of historical context in a much more macro sense is that the period after a pandemic – and I'm going to look at this more like an event that is a massive disrupter, whether there really is something that is worthy of the reactions we've had – that is outside the scope of the perspective of when we have that kind of a dislocation, it is in this environment that you have people coming up with new ideas in their garage. They are stuck at home, and they are 'tootling' around in their garage, and are coming up with an idea.

It is in pent-up demand events, whether it's after a pandemic or after a war, innovation flourishes afterward. So indeed, it is getting through much of the risks of 2020. There is a perspective here that we can expect between pent-up demand and the innovation that is occurring on a more coherent environment sometime in the future. I don't see it short-term, and I can speak much more to this shortly, but mid-term to long-term.

As an engineer, and with part of our study being decision-making under uncertainty, I was managing technological changes. The future mid- to long-term can be bright if we engineer it that way and steer it that way. I think that will be the remainder of our conversation.

**Fitts:** Let me intercede one thing here: I've never known how to close the gap. With one of my 'hats' on, I spend a great deal of time roaming around the world looking for great companies. I run two screens, and am constantly finding and underwriting great companies.

When I'm in a different country, I will sit down at a restaurant, and open up a magazine. I don't speak the language, but I can tell from the pictures and the hype that this company is where 'it's at', and I will literally find companies that way. They are always quiet and always invisible. You rarely read about them except in the trade press, and they have these great management teams. They are doing fantastically interesting things. Much of it is new technology, but not new technology as in big momentum stocks; it's technology applied to some very basic, concrete function like agriculture or manufacturing.

Many people would find it boring; I find it fascinating. And they are exploding around the world. It's an amazing story, and yet it never gets told.

It is an invisible story, and it is driving, what I call, 'Planet Equity'. So, I see a huge move into equity and a huge growth in equity. But how do you communicate that? It's thousands of basic, wonderful management teams just doing what they do, but it never gets communicated.

**Harmon:** To quote King Solomon, "There is nothing new under the sun."

There is one way to interpret the signal from this chart, which is the last 50 years, and then you consider the chart that goes back to 1802. For a long time, I was saying that Professor Siegel did all of this research, and then I realized that these were his graduate students, so let's give them their due. That has been going on since 1802.

So, you have this incoherence all around us and all around those people who are building their 'thing' and just showing up. I live across the street from a cheese factory. They show up at 6 in the morning, and they make their cheese no matter what is going on. That is fundamentally what is happening.

We could get into the study of behavioral finance, which in the last couple of years recognizes that we are prone to overreact to negative things as a species; it allowed us to survive.

I talk about retirement being three years in a rocking chair on a porch. Well, before that, for most of human history, it was being eaten by a saber tooth tiger. So, running away from the tiger has served us well as a species. But to your point, you are absolutely right.

Meanwhile, all of this fear – which now is being fed – is different from the saber tooth tiger that was actually there 100,000 years ago. Now we have to question what kind of filtration or lack of filtration all of this messaging is coming through. That is one of the risks.

**Fitts:** For many of *The Solari Report* subscribers, if you are concerned about the corruption, how do you navigate holding assets – whether it's stocks or real estate or any asset? How do you navigate holding assets without letting the corruption trip you up?

**Harmon:** That's a perfect segue to looking at risks for 2020. We have two slides; one is financial, and one is non-financial. Just remember in the context of 1902 with respect to financial planning, there really were no risks to your plan.

In 2002, we are looking at income protection and trying to minimize the burden of taxes. In 2006, we started to recognize the significance of potential currency devaluation. Well, circa 2020, some of these risks – particularly related to institutional risks – were really showing themselves, of course, in 2008. Arguably, they were there before. We had the savings & loan crisis in the late 1980's, and then way back to the 1920's, you had Joseph Kennedy who made much of his fortune, not necessarily 'providing value for clients' (let's put it that way), to the point where Roosevelt made him the first head of the SEC, saying, "This guy knows where all of the corruption is."

I don't want this to sound trite in any way, but if we think about that chart going back to 1802 and, in fact, going back before that time, being human nature we are always going to have corruption, and we will have nefarious actors gravitate to money. That won't ever end.

I find a bit of solace in the fact that stocks earn 6% over inflation in all manner of environments including having Mr. Kennedy (Joseph) and all of his current-day equivalents doing those kinds of things.

That is in the aggregate, of course. That is not to say, though, that we should not be engaging in best practices to ensure that we are not specifically the victim of that kind of corruption. So, a large part of that is captured on this slide as the risks that we are seeing.

Before we talk about that, I do want to mention this idea of negative real rates. This goes back to those two portfolios where, if you are earning more than inflation, you have a positive real rate. So if you are earning 4% and inflation is 3%, you have a real rate of 1%. You can mark time okay that way.

If suddenly you are earning 4% and your rate of inflation is 6%, now you are looking at negative real rates, so you need to find an allocation that is going to increase your real rate of return. This is where we look at reallocating some of what we have reallocated to bonds – not necessarily all. We start saying, "Okay, what are our assumptions?"

Our assumptions are to recognize that we are in a negative real rate environment for the foreseeable future, and maybe we should be looking at taking some of the bonds and allocating them to quality companies. As you pointed out, there are so many of them out there, and particularly ones that might provide a dividend.

So, look to someone like you who is providing screens on these various companies, and then say, "Alright. I am going to accept some short-term fluctuation because fundamentally my objective function is that I don't want to run out of money before I run out of time."

You also want to look at holding precious metals for the same reason that we are looking at trying to mitigate that negative rate environment, and then looking at institutional risks. These risks bubble up in various forms – I suppose that we could say, "Until the bad actors are caught."

I think the very large institutional risk with the main line or large banking environment was exposed in 2008. It's not to say that now those risks are gone. No; they are still there; they did not mitigate them. We are just aware of them now. Our assumption is that the large banks are these stable bastions of integrity and trust. Well, I think we all realize that assumption might not serve us.

I know that I'm not saying anything new, particularly with a number of these elements. This is something that *The Solari Report* is consistently discussing. But I am going to weigh in and encourage banking small and banking local to the extent that you can. There are a number of risk scenarios where you are just fine if you are in the local credit union or the small bank where you are not in one of the large institutions – much of which relates to the derivative complex that those large financial institutions willingly expose themselves to, and increase even in the face of almost losing their 'shirts' in 2008.

It's the same issue with respect to a custodian. So, when we do our due diligence annually to make sure that we are not exposing our clients to undue risk with respect to a custodian if the holding company of that custodian has derivative exposure. You can find that on the Comptroller of the Currencies website, and you can look at, not only your financial asset custodian, but also your bank's. You can go onto the Comptroller of the Currency website, and you can see a list of what kind of derivative exposure your bank or your custodian had last quarter.

That is something that we do as part of our due diligence process, and any of us can do that as well – just checking with them.

Then there are the insurance companies. Right now, I would say that 2008 exposed the derivative risk with banks and custodians. Insurance companies in a low real rate environment are very brittle. Unfortunately, you want to minimize your use of insurance. Here is the tradeoff: There is no such thing as risk-free. You need to have income insurance –called life insurance – specifically for the purpose of the event that one of the wage-earners in your household meets an early demise.

You do not want to use it as an additional investment product because you now have an institutional risk related to the fact that insurance companies are dealing with this negative real rate environment as well.

Concerning insurance companies, similar to being a member of a credit union instead of being a customer of a large bank, to the extent that you get insurance, you should go with a mutual company as opposed to a corporate firm because you are a shareholder. Similar to a credit union, you are a shareholder. So, they are obligated to look after your interests as opposed to the corporate structure that is obligated to look after the shareholders' interest.

With respect to interest, we deal with it every day. Of course, there is nothing new there. Banks are basically being lent or given money for free. We have credit cards with 28% interest rates. As the Bible would say, that is usury.

Any way that you can pay down that debt – and that is not just to say to blindly pay it all off – you want to do an interest rate arbitrage to the extent that you can. If you have a mortgage, that is the best tool.

It's really important. I'm not saying to refinance your house to buy a boat; I'm not saying refinance your house to buy shoes; I'm saying refinance your house to pay off debt that has a much higher interest rate. It's one of those areas where we can actually take advantage of that.

If you have a mortgage that you took out even two or three years ago, one of the benefits – one of the few benefits of a low real-rate environment and a negative real rate environment – is that the cost of borrowing on a mortgage will be relatively low. In fact, we have a client who recently was scoping out a co-op apartment in New York, and she was quoted for a 30-year fixed at 2.5%.

She has a stepchild who has student loan debt at 8%, so she is looking at refinancing at 2.5%, and will become the bank for her stepchild. She wants her stepchild to continue to pay off their debt, but they are going to be paying at 2.5% as opposed to the student loan rate.

It's looking at ways that you can eventually pay down as much of your debt as you can, but certainly be carrying as low interest rate as possible on that.

**Fitts:** I have to tell you that one of the most shocking things when I was doing individual investment advisory was to see within a family the extraordinary arbitrage potential. Adolescent children and truly trusted and loved relatives were paying enormous amounts to the large financial institutions while the people in their family who had capital were struggling to get yield. I thought, "This is a no-brainer. Why can't we solve this problem?" Especially where many people don't want to deal with servicing loans.

You can put a small bank in the middle. There are many different ways to do it, but it's part of disintermediating the institutions that are taking too large of a 'ride'. I think there are tremendous opportunities.

I get back to this thing about people with integrity because I've also seen families try to do this and then have family members behave in irresponsible manners. So, you have to be very, very careful.

**Harmon:** That's right. And to your point, if you can get a small, local financial institution that is flexible in that sense, then that is a win-win-win. The only ones who lose are the usurious institutions. As far as I'm concerned, that's great!

If you are creating a win-win environment, you should be rewarded for that.

It speaks to this idea of: What are our assumptions? If we are not even asking that question, we can't see the potential arbitrage within our family. It's only, "Student loans are 8%. That's it."

If we don't ask those questions, why is that? Why can't I structure a loan?

So, it speaks to starting to look at everything, and its 'fresh eyes' as the Buddhists would say. It's looking at things as a child. Find your inner four-year-old. "Why is this? Why is that?" (Just don't be as annoying as I was at four, apparently.)

One area that I'm really excited about, coming from an engineering background where part of the work that I not very successfully did, is trying to improve environmental profiles of companies by having them not create pollution, be more efficient, and it's a win-win-win.

This was the mid 1990's. At that point, I realized that if the corporate level – the C-suite – did not care about the environmental metrics and didn't even care that they might save a little money in being more efficient, it didn't matter whether a plant manager wanted to implement all of these suggestions that we had.

I realized then that we as shareholders and stakeholders have to somehow drive the C-suite to recognize that these environmental issues, which I was focusing on, or social issues or corporate governance issues are important to us as shareholders. I'm very excited that finally, they are in the zeitgeist, and people are starting to be concerned about that. We now have a technology infrastructure that enables screening in these contexts, and we finally now have people like you who are now providing the value-added screens and processes that I saw 25 years ago.

The firm that I worked for did a study. Remember, there is that idea of the equity versus bond premium. They looked at using their criteria. Of course, the criterion is one of the big issues in doing screens, as you can attest. Assuming that their screen was valid, they identified that the best in practice with respect to environmental and corporate governance – the best company in each sector –

outperformed their peers over a ten-year period by one and a half percent a year. So there was a premium, and it makes sense.

If you are managing your shop well, and not wasting and dumping cadmium in the river and are making sure that you are addressing all your requirements with respect to human resources and your regulatory bodies and you're not paying fines, that will go to the bottom line. So fundamentally, we can be in a world where it translates to the bottom line that companies are doing well with these other objectives.

We talked about the planning objective function. Well, this is an investment objective function. Historically, the investment objective function is only to maximize profit. In various ways, different people will maximize profit for themselves as management teams or what not.

Well, what if that objective function includes things like making sure that we don't create a Love Canal or ensuring that we are honoring our employees so that they don't fall over dead in a warehouse.

**Fitts:** I'm going to jump in here. We did a big *1st Quarter Wrap Up* last year on ESG, and it gets a little murky. I agree with you that if a company is anticipating not making a mess that causes a political – therefore financial – risk, that is very smart. But you have many companies, which I would describe as organized crime, that would never pass my screen and are considered to be very environmentally and socially wonderful because of secrecy and non-transparency, and they are always clouding up the numbers you are describing.

**Harmon:** This is progressive in a very different way than how the word has now been understood in our society. This is progress. I saw this potential 25 years ago.

**Fitts:** It is progress.

**Harmon:** People like yourself and various other fund companies now demand using this criterion and saying, "Look, if we are going to invest in your company, you need to clean this stuff up."

That very fact that is happening now where it wasn't 25 years ago points to progress. I hold that out as positive.

**Fitts:** I think on some of the environmental issues they are making progress. On the governance and corruption issues, I see it going the other way. But I am always hopeful that it could go the right way. The minute the world sees the potential and shifts, this is where real solutions come from.

**Harmon:** That's right, and I think that is a good segue into the next slide. It is ultimately a disequilibrium. It seems that nothing will change, nothing will change, and then suddenly it does. I'm trying to think of a good analogy for this aside from the critical mass in a nuclear reactor.

**Fitts:** I want to start by bringing this up. I did individual investment advisory work for ten years, and I found that every year the nonfinancial risks were having more and more devastating financial impact.

It was imperative to have an integrated planning process because what's the point of getting a 10% return on your portfolio if a political or health risk will come along and wipe you out?

**Harmon:** That's right. If we look at that historical context-I mentioned that risk circa 2002-that chart is basically the CFP curriculum. There is the saying, "Generals always fight the last war." In 2002, we were looking at risk in ways that the CFP people were moving along, but they are finally there now. They are finally using the math models that we've been using for 20 years, and I love to see the industry press. They talk about this wealth management process like it's magical and it's new.

I've been doing this since 1999 and even before that; this is not new, it's the process that we've been using.

To your point, financial planning circa 2040 – which is basically recognizing that we need to address all of these risks – is in its nebulous now. It is not only having a sense of net present value and helping minimize taxes and getting your insurance portfolio in line. It will be integrative and it is going to be focusing on decision-making under uncertainty. It is going to be focusing on even defining risks, and then looking at addressing them.

**Fitts:** Part of it is that 20 years ago if you looked at the financial plan for one of your clients, they were highly dependent on income and services and assets and asset management on large institutions. What has happened is the economics of having your whole financial statement and balance sheet disintermediated has changed. Suddenly, it's getting much more economical to do it for yourself or do it locally or do it in a whole new way and simply disintermediate the entire 'shebang'.

**Harmon:** That's right, but we are now at the beginning of that. There will be a process. In fact, I consider now that we have had this very nice, stable process. The objective function, the framework, and the questions are all the same; it's just now that we are expanding.

In 1902, it was just an arithmetic equation. In 2002, now it's a multivariate probability model, but that model captures the majority of the elements that you need to address and the few risks that would make that plan go awry. We have large institutional, stable means to address.

Now, to your point, we are entering an environment where everything is changing rapidly. The constant hasn't changed. The only change is the rate at which it is happening is significantly increasing. I think it is important to recognize that and say, "Gosh, there is stress from all this change."

If we imagine ourselves to be Bruce Lee again, all of this change is happening around us. He might not know where there is something that he needs to address, but he is fully positioned to address it. That is largely in asking those questions and then coming up with ways to do things differently.

I think you and I are in alignment with this. We sit on the cusp of an opportunity to become really decentralized and 'human', versus a centralized sterile, arguably 'face like flint' scenario. I want to be part of the former, and I know that you do, too. I think that it is encouraging all of us to question how we can do things differently today, and also recognize that we need rest. We can't be going all the time on this.

In the ‘Resources’, I have a reference to a book that is about 20 years old called *The Power of Full Engagement*. Going back to King Solomon, there is a time and a place for everything. There is a time to assess and work and engage, and there is also a time for rest. If we don’t rest and we don’t keep this system humming, then everything else falls apart. I know that this is a continuing theme with *Solari*.

I want to talk a little about win-win in the sense of one of the books in my ‘Resources’ area. It’s a book called *Nonzero* by Robert Wright, where he points out that in game theory in math, it’s called nonzero-sum. The idea is that if you have a zero-sum scenario, it’s win-lose; somebody wins at the cost of someone else. Nonzero-sum is that both parties win.

Fundamentally, I am sick of the win-lose world; I want to be part of the win-win world. So, I think that intuitively, that makes sense to most people who want the human world.

Wright goes into a fundamental point that there are many win-losers, but we would not be here today if win-losers were ascendant. Even if only 51% of us are win-winners, that is enough to drive progress. If win-losers had carried history to the extent of 51%, we would still be in caves or running from Genghis Khan or whatnot.

It is very close; it’s 51/49. Unfortunately, it’s not 80/20 or even 95/5, but in our lives, we can all look to be win-winners. In doing that, it does tip the scale. Fundamentally, that is the perspective of win-win that is the traditional game theory.

I would also like to encourage listeners, watchers, and readers to look at win-win from the standpoint of addressing risks. So, if we look at this litany of things that we have to address, one of them is a potential food shortage and any number of reasons that might go into a potential food shortage.

As a personal anecdote, I had an assumption as a child born of trying to grow food in clay in Northern Ohio that I can’t grow anything. I decided that I was going to run numerous experiments expecting some of them to not go well. In fact, that gnat might be an aphid that ate all of my spinach.

I planted various different things in many different ways, and I ran several different experiments this summer. Most of them are eaten by aphids, but harkening back to my Irish family, I actually could grow some potatoes, and they are really good. So, I have turned my personal assumptions that I can't grow food.

I'm not living off those potatoes, but I've proven to myself that I can grow them, and next year, I will probably grow much more. So fundamentally, it's that saying, "Given lemons, make lemonade." I have made the best lemonade this summer.

So we can gain a resilience, and can become stronger and more grounded by trying out things and questioning our assumptions in the face of an environment that forces it.

The other point with the food shortage, which is a real win-win, is I discovered intermittent fasting; I go on and off of it. I utilized it to deal with some middle-aged aches and pains, and it does work for that. It reduces inflammation, it helps with autophagy, which is your body's ability to clean, it helps clarity of mind, and it also reduces your intake by 15%. So, we are in a position where we need to make sure that we are eating good food, and we also need to make sure that we are running this system and, we need to have activity and need to rest. The same thing applies to our body. What intermittent fasting does is allows our body to rest and repair.

So if we intermittent fast, we have a more stable, healthy body, which helps us avoid or minimize our interaction with that absolutely broken healthcare system. It makes us more resilient in the face of a potential food shortage, and makes us feel better. That was the fundamental reason I originally started doing it. It also saves 15% of our food expenses.

I would say that if there is one thing to splurge on, it is organic food. I know that you have had people on *Solari* about this. It's important to look at it from the context of its financial impact. So you are intermittent fasting, and you have 15% of your budget that, instead of buying industrial-raised spinach, you buy organic. The industrial spinach, unfortunately, is devoid of many of our required nutrients, one of which is magnesium. So, you are basically getting three times as much magnesium in organic spinach than you are in factory-farmed spinach. That magnesium is crucial to ensuring that you have heart health, your joints and your muscles don't cause you pain and agony and drive you to any number of doctors and – God forbid – opiates and whatnot. That magnesium is also calming, and it helps you sleep.

Just in looking at doing intermittent fasting, because that makes you feel better, keeps you out of the healthcare system, and makes you more resilient. If there is a food shortage, fine, I can intermittent fast. Then I take the money that I've saved from that, and buy organic. Ultimately, if you consider it from a total cost standpoint, you are not spending any more money on your food budget, and you now need the allopathic medical system much less because you have a vitamin and mineral profile that is oriented to health, as opposed to deficiency.

So when we think about win-win, it is personal to how we can develop our tribes and our communities and do it in a way that makes us better off. In creating a greater and greater pie, and we can also look at win-win from the standpoint of risk management. I try to add dimensions to my win-win.

Right there, you start with intermittent fasting, and then eating organic, you are addressing several dimensions of risk with one habit that ends up actually helping you in ways that you didn't even realize.

**Fitts:** One of the things that I always encouraged my clients to do was do a time budget in addition to a money budget because I've found that the best way to identify and delete risks was through the time budget, not through the money budget. Of course, there is an intimate relationship.

Anything that we could do to reduce the stress on their time and incrementally reinvest any new time they could create by deleting certain things into doing the kinds of things you are talking about is beneficial. It takes time to learn how to garden, and it takes time to learn how to intermittent fast. So, there is a real sequential process of breaking time free for this and that, and plenty of it is the importance of deleting shadow work. There are a huge number of players who create shadow work for you and create risk. Get all of the 'bad dogs' out.

It is shocking in this environment to see in a company or a family that all you do is bring one 'bad dog' in, and it wreaks havoc with everybody's time and money.

One of the shows that I loved watching was *Downton Abbey* because everything would be fine and everybody would be working hard, and everything would be working. Then they would bring in one 'bad dog', and what a mess! The next thing you know, you have a fire in the house.

The moral of the story is to keep the 'bad dogs' out; don't bring them in.

**Harmon:** Part of the issues that we are dealing with here – and it relates to going from 1902 to 2002 to where we are now – is an increasing complexity and trying to navigate that.

Oliver Wendell Holmes has a quote that is almost the verbal equivalent of Mr. Lee in his circle of incoherence, "I would not give a fig for the simplicity this side of complexity, but I would give my life for the simplicity on the other side of complexity."

I look at that as saying, "All of this is going on. How can I strip some of this complexity out?" To your dog analogy, the complexity creates more complexity.

**Fitts:** Let me bring up a couple of resources that I will put up as links. They are *Solari Report* resources, which I think are very useful. I know that we will turn to *Resources* eventually here, but I would like to add them now.

One is *Scenario Planning*. We are mailing *The State of Our Currency* to all the print subscribers, and it posits some quite extreme possible scenarios. We are talking essentially about the global reset that the central bankers are engineering and where they want to go with all of this. As we know, there is a significant number of very powerful players who want to go to places we don't want to go.

I love this tool, and we do one every year, which is scenario design. We have a *Solari Report* on scenario design. What it says is, "Pick a couple of key assumptions about the world – interest rates go up, interest rates go down, we go to war with China, we don't go to war with China, whatever – and you build different scenarios, which allow you to use them as stories. You can go into that future and walk around and see what that future is like. Those futures can be wonderful, or they can be horrible. You can do a range of them. They help you understand what is really important.

"To be prepared for this future, I want to have a lot of gold. To be prepared for that future, I want a garden." You go back in, and what it helps you do is get over your fear. You stop freezing in the face of frightening scenarios.

The other thing that you do is say, "Oh, there are all of these different actions that I can take in my unique situation, and I don't need to worry about which one it is. Now that I've experienced them all, I can track them. I just need to do these things as quickly as possible."

It gets you out of freeze mode and into action mode. So, the first one is scenario planning.

The other is one of my favorite books, *Family Wealth* by Jay Hughes. He was a lawyer, and he and his dad, who was also a lawyer, advised very wealthy families. *Family Wealth* is written about what the behavioral patterns are of families that keep the money and don't let it drain away over several generations. What was interesting about *Family Wealth* was that it also described the behavioral patterns that families should adopt who want to become wealthy. It is really about conspiring together to help each other succeed.

My feeling is that some people say, "I hate my family. I can't possibly work with my family," and my attitude is – as you said on your slide – "Find your tribe and conspire with them."

You know that we end every *Solari Report* with, "Don't worry about whether there is a conspiracy. If you're not in one, you need to start one."

I was a conspiracy perpetrator before I got thrown out of the establishment. The fundamental operating mechanism of the world is conspiracy. We thought they were wonderful. I'm still getting over my shock that anybody would be anti-conspiracy.

For example, we used to have a circle in my community where we would have about 20 people, and we had a potluck dinner once a month. We would teach each other about how to build resiliency. Some people knew how to garden, some people knew how to dig a well, and there were many different talents there. It was a way of getting out of our own hole and getting into action because, in this kind of complexity, you can't possibly know how to do all these different things.

So, I would look at *Family Wealth* and I would look at scenario design. We have a *Solari Report* on '*Solari Circles*'.

**Harmon:** And you are including that with the resources, correct?

**Fitts:** I'll put links up to all of it. We did a great series on healthcare proxies and planning to manage health, and a great one on estate planning. It's all there.

If there is one thing that I learned during that period, it's that every person is unique. I am sure that you get these questions, but the question that will 'drive me up a wall and back' is, "What percentage of my assets should I hold in precious metals?"

When you are complete stranger, I have no idea!

**Harmon:** There has to be a context.

**Fitts:** So whenever I would work with an individual, I would come up with a 100% completely different plan for one person as opposed to another person.

For example, on tax planning and political risk, this person should never have an IRA while this person can have quantities of IRA's. Each person is unique. Whatever you need, it can only come by going through a process where you systematically lay out where you are and where you want to go and how you will get there. It's totally different for each person.

**Harmon:** Absolutely. I think it is fascinating because we work with a number of clients who are partners in the same law firm. From an experimental standpoint, Susan and I are process engineers, and we run the same process; we have evolved in recognizing risks around that process, but the process is the same.

The plan is unique. To your point, these people are the same age and the same level in the same company and have the same net worth, and yet this person will die at his desk, but he wants to live large, whereas the person in the next office wants to be retired yesterday and will reign in his standard of living to do that.

So, you have a process and you have parameters. Fundamentally, we have a vision of what our future will give us – the greatest happiness and the pursuit of that happiness. Then we are looking at all these things that might make that go awry.

What makes us happy might change over time as well. So, the plan is not just that it is unique for each person. We are following the same process, but we end up with different plans because of what that happiness is.

**Fitts:** What that says to me is that you can stop listening to people who are strangers who tell you that you have to do this, this, and this, or that you have to invest this percent or that percent. That is all 'phooey'. That is number one.

Let me bring up another couple of things. One of the most difficult challenges in this environment is one of the reasons I love the Bruce Lee GIF). You have tremendous volatility in everything: you have volatility in your real estate; you have volatility in stocks. In all real assets, you have tremendous volatility. Then, of course, there is tremendous volatility in the world view that is primary month-to-month or week-to-week.

We would make a plan together, it would be totally perfect for that person – or at least it seemed that way – and as soon as gold was 'slammed' 15%, the plan left their head, and suddenly they wanted to sell everything.

If you follow that impulse, you will sell everything at the bottom. And I've seen people take portfolios like this. Part of it is that I think of the economy right now as basically a war, and you have a group of people who are trying to get you to drop the ball by 'scaring you to death'. It's funny because people say, "The end of the world is coming," and I say, "That's funny. Why are KKR and Carlisle buying? Do you think it has anything to do with them trying to persuade you to drop the ball so they can buy it cheap?"

One of our big dangers now is that the private equity firms have the 'bit in their teeth', and they are buying everything up cheaply. Many companies that I would like to see publicly traded are still available.

The second thing is that you are in a war, and somebody is trying to play you. Make your plan. I'm not saying, "Don't be responsive to the environment," but don't let it play you.

**Harmon:** When you talk about scenario planning, we say quite often, "It's 1987. Here is the newspaper. What are you doing? Are we sticking to the plan?"

I actually think that the biggest risk from a financial standpoint is the risk of the 'big mistake', which is to sell at the bottom. In fact, if you go back to the Siegel chart, you can see where in the Civil War there is inflation, and then the bonds return to having roughly a 6% rate of return, but now they are in parallel with stocks because they lost that five-year period.

If you look at that as nearly like a mental Civil War, you are absolutely right. There are people who want to drive you out. This is, arguably, what happened in the 1930's.

Andrew Mellon, who was the Secretary of the Treasury in the 1930's, was quoted as saying, "Depressions are when assets return to their rightful owners." So if you want to be the rightful owner, you are holding on in the face of all that.

Fundamentally, when we develop an investment policy for a client, we are agnostic to what percentage the stocks, bonds, real estate, and precious metals they might have. We are completely agnostic. It is our job to make sure that we provide this perspective.

**Fitts:** I think that everybody listening or reading this has to understand they have to do something that no financial planner can do. We are in a period of significant legal, financial, and political warfare, and there is no 'not being on the field'. So, the question is: How are you going to take advantage? How are you going to play to win on that field? ‘It is what it is’.

Whatever bubble we used to live in, that is over. So now we are in the field, how are you going to take advantage?

I was trained on Wall Street, of course, and whenever something absolutely terrible happened, the first thing that everybody would start talking about was, “How can we make money on this?”

So, we have to change how we operate because this is the nature of our environment. Back to your story on Bruce Lee, the environment is not going to calm down, so how are you going to get focused and do that?

Did you want to go through your resources now?

**Harmon:** Yes, let’s summarize some of the tools as part of our framework here.

We are looking at questioning our assumptions. This can be as fundamental as things that you were told as a child.

Actually, there is one other element that I would like to bring up. In all of this, to the point of innovation, there are numerous potential ideas here. Quickly, you might want to chime in on this. There is this idea of Agora schooling – that education and healthcare are ready for disruption and disintermediation. I say that as the child of a private school teacher and the niece of a woman who was in the first class to admit women at Johns Hopkins.

Healthcare needs to be completely disrupted, as does education. We are in a place now where I thought ten years ago, looking at clients who were spending $30,000 or $40,000 a year for a primary school in Manhattan, that instead, you would get somebody who is trained in the classics, and gather five families together, and pay that person $100,000. They don’t need an education degree. My father taught at a private school without an education degree. He had the fundamentals in science that he is still conveying to youths.

If you are in a situation where you have an opportunity to do that; find five families and share the cost. To the point about arbitraging within families, there are those similar issues with respect to these kinds of ideas. I am waiting for somebody to come up with an Agora schooling model where you literally have somebody teaching a Socratic method to a few children of the same age, and certainly for primary students.

**Fitts:** Actually, this is happening all over the country as I talk to subscribers. I will say this: It's becoming exceptionally important to understand the jurisdictions in which you live. This impacts it, and one of my messages for subscribers is: You will have to pull your children out of public school; it is too dangerous.

You look at the risk issues that are coming – or the risk issues that are here in some jurisdictions – and it is becoming exceptionally dangerous to allow your child to go to a government school. So you will have to do this, and it's not a matter of saying, "I can't."

Stop saying, "I can't", but rather, "How are you going to do it?"

**Harmon:** How are you going to do it? To the point of 'finding your tribe', we are at a period in time where we can find virtual tribes in all manners. I'm in a small town in Vermont. A hundred years ago, your tribe was in this small town. Now it could conceivably be the world. I have a gardening tribe now, and if you had told me that a year ago, I would have said that was insane.

There is constant change. Recognize it, get grounded, and maybe you will be the next billionaire because you have noticed an idea in this change. The change provides opportunity. Your child needs better schooling, and the next thing you know, you and a group of people have created a model that can completely disrupt, and you have created the next great thing. There is that in all of this. If we can ground and center, there is that possibility.

So, what are your assumptions in all manners? There is no such thing as risk-free; there are only tradeoffs. All models are wrong, and some are useful.

The last one that I would add – and this goes to the point of not making that big mistake – is you need an emotionally optimal plan. Mathematically, optimal is great, but if you are in a place of stress or uncertainty or concern and you are not emotionally stable to ride through that, then your plan has gone awry. It doesn't matter how mathematically perfect it is. And I will tell you I learned that the hard way, unfortunately.

**Fitts:** I just looked at the statistics. Visual Capitalists did a graph on small businesses, and I think it was in San Francisco, 49% of the small businesses have been shut down or closed. In New Orleans, I think it was 42%.

You are talking about a phenomenal number of people who have had their livelihood wiped out for political reasons. Many of them are in emergency and triage mode. That is a process that I've been through. One morning, I woke up with a $1 million a month overhead and a $2,000 a month income. So I said, "We need a high-speed adjustment."

I have lived through that process. It can be done, but it does require revision, and the hardest thing in the world when you are in the bunker, and somebody is lobbing Scud missiles, is to have a vision. But it comes down to the decision: Do I invent my world, or does Mr. Global invent my world for me? Part of the financial planning function is believing that you can invent your world, and you can.

**Harmon:** To that point, I have a couple of resources here. I have found *Picture Your Prosperity* and the idea of visioning, and also the habits and energy management in *Power of Full Engagement*.

They give the analogy of: What is a flat line in a biological system? Death. You need to have cycles, so you need to have rest and recovery. Just like 'What are your assumptions?' you start looking at that all around. That gives you a grounding. Even as the missiles are flying, you know what you need to do to regulate the cortisol and the anxiety. You learn that; those are fundamental tools. That is a risk management element, to navigate that.

If you are able to keep yourself out of that crisis mode, which includes that down time, then you are in a position to envision and create. There are many people out there who are waiting for, 'what is next'. If we are being the conscious ones, if we are the ones who are coherent, there will be people who follow us.

**Fitts:** I am going to give you a little secret. The SES (Senior Executive Service) caliber people in the Federal government used to be quite extraordinary. I worked with one of them, and it was our job to clean up the housing bust in 1989 and 1990, and it was a mess. You had busted mortgages 'flying' in; it was an amazing tsunami.

He turned to me and said, "In the destruction of the old, let there be the creation in the new." What he meant by that was the way we are going to invent the new is how we work out this mess. So, we are not going to design a new FHA mortgage system; we will take this mess coming in, and embed the creation of the new in the cleaning up of the mess. You don't have time for a two-step process; this is a one-step.

So, don't wait for Mr. Global to lower the next boom. Whatever the mess is that is coming in to you today, start inventing your new thing into it. That is where your opportunity will be.

**Harmon:** I will share with you one of my idols, Colonel Sanders. He was a serial failure until he invented the Original Recipe at the age of 65. Until his death at 82, he was living large, but deserved it because he just kept showing up. He kept showing up in the face of all manner of things going awry.

**Fitts:** Great businesses are hard. You have to fail a great deal before they start to deliver value.

**Harmon:** And failure is difficult. I went through a period; I joke that I was the only person laid off in the City of New York in 1998. There was a zero unemployment rate, so some people were working two jobs. I was doing manufacturing consulting. They said, "We don't make anything in New York, so we don't need you."

It took me a while to come up with what I could do to employ my modeling tools and not live out of a suitcase going from factory to factory. I ate much of my capital, and it was dark until I realized, "I can do this," and apparently, I am good at helping people with this. So, there is a win-win.

In the context of all this change, what are you good at? I am not talking about a job, but a skill. What are you really good at, and what do people value? Find that nexus.

What are your assumptions? Abandon your assumptions and find the nexus of what you are good at and what people will pay you for. That is it. It's very, very hard when you are 'eating your seed corn', and it was a serendipitous action.

**Fitts:** You start by responding to the people who want your help for whatever reason. I have two businesses, and they were created by answering people's questions. And they weren't necessarily the questions that I wanted to answer, but they were the questions that I got. That was the thread that I followed.

I've kept you much too long, so let's get into the Resources.

**Harmon:** It's been great on this end. I truly hope that it has been valuable for those on the other end.

**Fitts:** You have to mention some of these other resources because you have some great books.

**Harmon:** Yes. When we are grounded and centered – which will not be always – there is looking at creating that vision and being sensitive and aware to what might bring prosperity.

I probably should have switched these two books, but *The Energy of Money* is much more esoteric, whereas the *Picture Your Prosperity* is a bit like rolling up your sleeves.

From the standpoint of dealing with uncertainty from a grounding and perspective level, there is a book by Pema Chödrön, a Buddhist monk, *Comfortable with Uncertainty*. It is a book of one-page thoughts, and I will read one page in the morning, and then I have it running in the background during the day. It is something that is making you more supple as you are grounded.

Also, read anything by Emerson, but *Contemplation* talks about the win-win from a transcendental, esoteric standpoint. I find that helps me ground.

I mentioned *Nonzero*.

*A Splendid Exchange* shows how we as a species have progressed through trade, through the win-win, not through, "I take it, and you're alright, Jack," as my mother would say.

Habits and energy tie back together within themselves. *The Power of Full Engagement* and *The Power of Habit* are what they sound like.

**Fitts:** *The Power of Habit* is one of my favorite books. I love the Alcoa story; it is arguably my favorite business story. That is a great book.

**Harmon:** Then from the standpoint of expense minimization, which we talked a little about, the idea of, "You are doing intermittent fasting, and right there you are saving 15%, but I might trade off with my spinach, but that means I'm spending less money on meds." I've heard that *Nerd Wallet* has been beneficial to a number of people who are attempting to work with us.

We recognize there is the idea that you need to get to a position to afford to work with a financial planner. I know *The Automatic Millionaire* by David Bach. It's a dated book, but it is fantastic from the standpoint of developing those budgeting and expense and initial savings habits. I have heard very positive things about both *Nerd Wallet* and Dave Ramsey for those traits.

**Fitts:** I confess that I love Dave Ramsey. To a great extent, good financial management is growing up and putting on your 'big-boy pants', and he is very good about telling you what you need to hear, not what you want to hear.

**Harmon:** Right.

**Fitts:** Also, of course, he is in Tennessee, so he's the 'home boy'.

**Harmon:** If anybody wants to reach out for clarification on any of the slides that we discussed or if anybody would like to discuss the potentiality of a consultation, my information is here on this slide.

**Fitts:** Of course, they can find your website at www.CounselFiduciary.com. It's very easy to find on a search.

What did you think of your first *Solari* Luncheon with Richard Dolan at the 21 Club in New York?

**Harmon:** I thought it was great! Since I was a child, I've been one to always be asking, "Why? Why is it that way? Why is it this way?"

I've always been questioning my assumptions. I think I'm talking about my book in that regard. I'm always asking, and I will abandon a hypothesis just like that! In my career, I have worked with people who have established a process, and they will 'ride that thing off a cliff'.

I think that with where financial planning is going, and this idea of a much more comprehensive risk assessment, I already see that our tools are the leading edge-2002. We will be part of building what is next. You show me that our hypothesis, our thesis, and our assumptions are wrong, and I will pivot immediately.

**Fitts:** At that luncheon, we went around. I don't know how many tables of eight we had; I think it was about six tables of eight. You had these amazing people. We asked every table to come up with their two questions, so they had to work together to come up with their two questions for Richard and I. What a knowledgeable group of people!; they were focused on, "What risk do we care about?"

**Harmon:** I would imagine that they are but a sample of *The Solari* cohort, right?

**Fitts:** Right, but you had many very financially sophisticated people in that crowd who could integrate the different worlds. So, it was fascinating.

When all of the financial planners and money managers who were there walked out still in a coherent mood I said, "Okay, we are making progress. The conspiracy is working."

Leith, thank you very much. I know that this was a great deal of work, and I really appreciate it. We needed to take a new, fresh look and a much more in-depth look than I usually do with the overview.

**Harmon:** It has been a pleasure.

**Fitts:** Any final thoughts?

**Harmon:** Final vision: Look, they have stopped dancing. That is interesting. This is my final thought – this picture right here. (As a reminder, all images, charts, and graphs mentioned in this report may be found at *Solari.com*)

**Fitts:** Have a great day, and thank you again.

**Harmon:** Thank you, Catherine. It's been a pleasure.