The Retirement Plan Company

Well, good afternoon. My name is Mike Bissett. I am the Managing Director of our growth team here at the Retirement Plan Company and will serve as your moderator for today's broadcast. I've had the privilege of working with the Charles Schwab organization for many years, and I'm grateful for this opportunity. First, I'd like to take a moment to thank our valued clients, advisors and business partners who have taken the time to join us in this exciting broadcast.

We are happy to provide this opportunity to learn from one of the most respected minds in our industry. And I'm confident that we will gain valuable insights we can use as we endeavor to grow our business. I would also like to thank our friends at Schwab, particularly Jarrod Friedson, for helping make this event a reality.

We have a longstanding relationship with Schwab and share their commitment to helping Americans plan for a secure retirement. We are scheduled to be together for the next hour or so and we'll do our best to leave some time at the conclusion of our conversation for Q&A. But please keep in mind Liz Ann cannot forecast or make predictions and cannot opine on individual companies or stocks. Please use the chat function to submit your questions and we'll do our best to get to as many as we can. With that, I want to welcome Liz Ann.

At Schwab, Liz Ann Sonders has a range of investment strategy responsibilities, including US market and economic analysis and asset allocation recommendations for individual, corporate and institutional investors. She has contributed to Schwab's advice, publications, and videos, and is a keynote speaker at many Schwab client and corporate events. Liz Ann makes regular TV appearances on CNBC, Bloomberg TV, and Fox Business News, and is regularly quoted in publications such as the Wall Street Journal, Barron's and the New York Times. Liz Ann, welcome and thank you so much for joining us today.

Liz Ann Sonders:

Nice to be here. Thanks, Mike. Appreciate it. And hi, everybody.

Mike Bissett:

Yes, well, we have a lot. I'm sure there's a lot. It's an interesting time. Always seems to be an interesting time, but a lot going on, obviously, as we're approaching election and things going on globally. So, we have a handful of topics we want to cover. So, let's just jump in.

So, as we all know, the Fed started its easing cycle with a 50 basis point rate cut. But given the recent very strong jobs report, it seems unlikely they'll persist at that pace. What are your expectations for monetary policy heading into 2025?

Liz Ann Sonders:

Well, I would agree that I think given what we know now, it's unlikely that the Fed would persist at a 50 basis point cutting pace, although quite frankly, even before the most recent stronger jobs report, we were not in the camp that felt that going 50 out of the blocks was suggestive of an aggressive easing cycle. I think it was more of an insurance policy, just say, alright, we're committed to the easing campaign. Reflecting the fact that given how much inflation has come down and the Fed's confidence it's not going to turn back up again, real rates were on the high end of their comfort zone. But clearly in the aftermath of the stronger than expected jobs report, it pretty much eliminated the likelihood of a 50-basis point move. In fact, there's even now growing probabilities that the Fed actually won't do anything. All that said, we've got inflation data coming out this week...more of that between now and the next Fed meeting. And we have another jobs report between now and the next Fed meeting. So, this is a moving target and a lot can change. But for now, I think 50 basis points is off the table.

Last thing I'd say is that's not a bad thing. I always would say to our investors, be careful what you wish for if you're hoping the Fed is cutting aggressively. In the past, when they've been doing that, it's because they're combating a recession or a financial crisis or some combination thereof. So, I think it's better if they're taking a more methodical approach.

Mike Bissett:

Well, that's interesting. And I'm curious because what does market history say about the behavior of the market once a cutting cycle begins?

(04:45.992)

Liz Ann Sonders:

Mike, I love this question, in part because I hate the way a lot of people answer the question with saying, particularly if the word "typical" is used, "Well, typically the market does \_\_\_\_\_\_." And then they'll fill in the blank maybe with an average of what the stock market has done, six months following the first cut, or a year following the first cut, obviously can slice and dice time frame. But here's the problem. There have only been...in the history of the Fed, there's only been 14 full interest rate cycles. Meaning you had a hiking part of the cycle, you then had a pause part of the cycle, and then you had a cutting part of the cycle. 14 is not a large sample size. And the range of market performance around that initial rate cut - whether it's six months later or 12 months later, or if you do maximum drawdown within some period of time, the range is incredibly wide.

We've had cuts that have been followed by incredibly strong performance. That was the case in 1975. Now, in part, the strength in the market was because what preceded it during the pause period was the worst performance ever in the history of those cycles. We then had a situation like 2007 when the Fed started cutting and we still had the global financial crisis ahead of us. So, the market did incredibly poorly, even though the Fed had started to cut. But that was in part because in the pause period, the market had had an exceptionally strong performance. So, there's a little bit of that boomerang effect too.

But when you have a small sample size and you have a really wide range, the average is not typical. It may not even hold that much meaning. I would say the one important distinction - I touched on it already with, you be careful what you wish for, is if you segment cutting cycles in the past between faster aggressive cycles or slow or more methodical cutting cycles, over - call it a year, the year aftermath of the Fed starting to cut, the drawdowns are much more significant when the Fed was moving aggressively. So that is one way to segment the cycles and at least have somewhat of a generalization. But other than that, there's so many things that impact what the market is doing, not least being the why behind what the Fed is doing. That's why you're never going to hear me say, "well, typically", "or expect the market to do this" based on what it's done on average. It's just too wide a range for that to have meaning.

Mike Bissett:

Well, that's interesting because one of the other questions I wanted to ask, and I won't say "typical", but we've had the tried-and-true indicators, the inverted yield curve and other leading indicators. We just haven't seen those lead to a recession at least yet, right? Which seems like it's further complicating things. What are your thoughts there?

Liz Ann Sonders:

So, and there's a relationship actually between the inversion of the yield curve and leading economic indicators. In fact, the most common index of leading indicators is put up by the conference board on a monthly basis. It's the LEI for short, leading economic index. It's by far the most widely followed by investors, by Wall Street, by economists. And there's 10 components that make up that LEI, one of which is the yield curve. So, the yield curve is a leading indicator. It's a component of the index of leading indicators. The stock market is another component.

I think the miss this time, if you wanna call it that, or the explanation around why neither the specific leading indicator of the inverted yield curve or in general leading indicators have not, at least yet, resulted in a traditional recession is that if you... so the makeup of the LEI, there's 10 components, as I mentioned, three of which are financial components, one of which is the yield spread. Another one is the S&P 500, the stock market is considered a leading indicator. Another one is called the leading credit index, it measures credit spreads. The other seven components are biased toward the manufacturing side of the economy.

Now, that's not because the folks at the conference board are clueless about the fact that services is 80 some odd percent of the economy, depending on how you calculate it. It's just in the normal course of a business cycle, you see weakness show up in those financial components first. The yield curve inverts, often because the Fed has been raising interest rates. That constrains the availability of credit. That feeds into the leading parts of the economy, typically in that manufacturing goods producing, and eventually turns into weakness in the services side of the economy. So that's sort of the order of things. The difference this time is that we've either elongated what happens during an economic cycle or maybe even we've broken it. So, one of the other themes that we've had for the last several years is talking about the rolling nature of this cycle.

(09:55.048)

We've had rolling recessions in manufacturing, in housing, in housing-related, in some of the stay-at-home beneficiaries that were consumer-oriented areas. Same thing happened within inflation. The initial inflation problem was in the goods categories of inflation. It was later that we saw the pent-up demand on the services side of the economy. So that was a huge offset to the weakness in manufacturing. We saw the later pick up in the inflation data on the services side of the inflation ledger.

So, the LEI didn't really fail. It accurately predicted the hard landings in manufacturing and housing in those interest sensitive areas. It just hasn't yet led to services weakness. And I think that has to do with stimulus still being in the system and the labor market still being healthy that supports the services economy and vice versa. So, I just think this is a cycle that really requires much more nuanced thinking, because of just how unique it's been.

And one other thing I'd say is, you know, the effect of the Fed's most aggressive tightening cycle in 40 years was muted by the fact that large corporations in particular termed out their debt. Many large companies are earning more interest on their cash than they're paying interest on debt. A lot of households termed out their mortgages. And even at the high of, I think, 8.1 or 8.2 % in terms of the stated 30-year fixed mortgage rate, the actual effective mortgage rate held by households was 3.8%. And it still has a three handle on it. So that just sort of muted the impact of some of these forces that in the past had a more direct and a nearer term impact on the economy.

(11:49.048)

Mike Bissett:

Back in, I guess in July and August, right, we saw a corrective and volatile phase where some of the high flyers took a hit and more interest rate sensitive segments started to take the lead. Do you think this is a precursor of more leadership rotations going forward?

Liz Ann Sonders:

Yes, I think it's a precursor to in general, a broadening out and definitely more leadership rotations. But notice I didn't say, I think that shift in performance bias away from the mega cap tech techie-related type names to the interest sensitive names for a while there in that span you had you know, REITs, and utilities and financials at the top of the leaderboard. I'm not saying I think that leadership persists, but the notion of rotation, whether it's driven by moves ups and downs in bond yields or changes in expectations with regard to Fed policy, we're at the beginning of earnings season right now, that can be a driver of some of these rotations. So, I think the rotational nature of this market that we saw kick in really starting at about mid-July away from just nonstop dominance and leadership by the very small handful of Magnificent 7 type names.

So, I think there will be more rotations. I do think, though, that where there has been a pretty decent amount of consistency in terms of leadership within the market is less at the sector level. We already talked about sector rotations, more at the factor level. So, we've been emphasizing factor-based investing, which is just investing based on characteristics. Not making monolithic overweight, underweight calls at the sector level or at the cap level, and really just look for high quality factors, like strong balance sheet, and high return on equity, and strong free cash flow. And that's where leadership has been more consistent. You'll see sector leadership jump all over the map, but there's been more consistency in terms of what's doing well and what the characteristics are of what's doing well. Even if the sectors in which they sit jump around, there's still been that higher quality bias. And that may seem like a bit of a duh.

(14:13.282)

I've had people say, well, wouldn't you always want to invest in high quality companies? And yes, in general, but there are times in the economic and market cycle where it actually makes sense to go down the quality spectrum into the non-profitable companies that really got hammered, say, by a recession, or the weaker balance sheet companies, because that's where sort of the leverage is to a big turn back up in the economy.

Maybe it's already obvious based on what we've already talked about. I don't think we're at that point in the cycle.

Mike Bissett:

Another thing I was curious about, you have been using the term, "a tale of two markets." What do you mean by that in the stock market’s performance? Are you seeing any change there?

Liz Ann Sonders:

Yeah, so the term referred to, and it's still applicable today, quite frankly, to more acutely in the first half of the year. And you can look back and carry that into 2023, but let's stay in calendar year 2024 for purposes of this discussion. Where obviously up to the midpoint in July, where we had the first big move to all-time highs for the S&P, for the NASDAQ, before we had that, you know, corrective phase into that sort of crescendo low in early August. It was a tale of two markets in the sense that the indexes, the cap weighted indexes, the S&P and the NASDAQ were absolutely on fire. But that masked much more weakness under the surface. And that has actually continued. So let me give you the numbers as they sit right now. And it really is the way to highlight this story of a tale of two markets.

The S&P 500 at the index level has had no more than an 8% drawdown this year. And that was the period from mid-July to early August. So, the index declined by about 8%. But the average member within the S&P 500, just year to date again, has had a maximum drawdown of almost 20%. So that's almost bear market level decline if you're looking at the average stock.

From a maximum drawdown perspective. It is even more of a wow within the NASDAQ. Now the NASDAQ at the index level has had a correction this year. So that same span of time, give or take, the NASDAQ index declined by about 13%. So that's as of now, the maximum drawdown for the index. But the average member within the NASDAQ has had a maximum drawdown of, get this, 45%.

(17:24.748)

That's deep bear market level declines. It's just happened under the surface. It hasn't happened all at once. It's just been kind of a process of rotation. But I think it's not that that's the more accurate story, but it's the fuller story. I also think that that, to some degree, was the setup for some of this broadening out and rotation. Because when you have drawdowns that significant and there's commensurate concern about concentration and maybe overvaluation in a very small handful of names. Frankly, I think there was a lot of money looking for opportunities and looking for value lowercase V, given some of that carnage under the surface.

The one other thing I would say, and this is really, I think an important message in particular to individual investors is, the dominance of the Magnificent 7. Let's just use that as the subset because everybody now is familiar with the moniker and the stocks that sit within there. Individual investors don't need to own those in size and concentrate their portfolio like what they represent in the index. That's an institutional problem.

That's not an individual problem. If you're an institution and you're running a fund and you're benchmarked against the S&P 500, absolutely. You have no hope of beating the benchmark if you don't own those stocks in a similar size. But for individual investors, they're not being measured and benchmarked against the S&P 500 by their constituents. And in fact, what's interesting is the Magnificent Seven, even back in mid-July, they were the largest contributors to S&P performance, index performance, to NASDAQ index performers. They weren't the 10 best. I mean, the seven best performers. And they're not now.

If you look at the top 10 best performers in the S&P, only one of them is in the Magnificent Seven. The other nine top 10 best performers are stocks like GE. There's a couple of utility stocks in the top 10. If you go to the NASDAQ, none of the top performers in the NASDAQ are in the Magnificent 7. None of them are large cap names. None of them are household names. I've been doing this for 38 years. I've never heard of a single one of the top 10 best performing NASDAQ names. So, I think sometimes we get into the mindset of I've got to own huge positions in Nvidia, and Apple, and Microsoft because it's the only way I can, whatever that is, beat the market.

(19:39.582)

You don't have to adapt that kind of concentration risk. There are plenty of other places where money has been made. Those have been the largest contributors because it's price performance multiplied by their size. And it's the size that's been the contribution factor, more so than the appreciation.

Mike Bissett:

Well, thank you because I've had that FOMO not being part of the Nvidia conversation.

Liz Ann Sonders:

Now, that is the one, needless to say, of the Magnificent 7 that is in the top, at least for the S&P.

Mike Bissett:

Yeah. Well, you mentioned a few moments ago corporate earnings, and I was interested there too on your outlook for earnings and profit margins and really your thoughts about some of the valuations.

Liz Ann Sonders:

Yeah, so we're just at the beginning of third quarter earnings season and I'll answer broadly first because I think there's a kind of an interesting characteristic about this cycle, yet again tied to the vagaries of COVID, that I think people need to be mindful of as it relates to looking at earnings - looking at forecasted earnings, and then, of course, doing valuation analysis with earnings as an embedded component of that.

If you go back to the early part of the pandemic, many investors might remember that a record percentage of companies withdrew guidance to analysts altogether, maybe for obvious reasons. When you were in the throes of the pandemic and everything was shut down, a company was not going to say, let me guide you to the cents per share three quarters from now. It was just an exercise in futility. So, they just withdrew guidance altogether.

(21:59.842)

The guidance has come back, but not to the same degree of precision as was the case pre-pandemic. And frankly, I think a lot of companies, for lack of a better way to phrase it, kind of used this backdrop as an excuse to not go back to the quarter to quarter cents per share, because many companies - and they'll say this very vocally, Schwab is one of them, we moved away from that well before the pandemic with the rationale that that's not how we manage our business - is every single quarter, are we going to provide the right estimate to the analyst community so that we can beat it? It's just that's not the way businesses are run. So, what I think that's had the effect of doing is when you're in reporting season for whatever quarter it is, analysts are obviously paying attention. They have their numbers. They listen to the commentary from the companies they follow. And then maybe they'll adjust the next quarter. They don't really do much to the following quarter, to the following two quarters or three quarters.

So interestingly, when we were in second quarter reporting season back in July, at the start of that, analysts' expectation for third quarter that we're about to start getting reports for was about 9%. Analysts cut that in half. And coming into the start of this earnings season, it's about 4%. They really didn't touch fourth quarter, they didn't touch 2025's numbers. So that makes forward PE type valuation analysis a little bit trickier because there's maybe less reliance on the denominator, which is those forward earnings. So, it's something to be mindful of. If estimates do turn out to be accurate and third quarter is just this dip down and then we surge right back up again in the fourth quarter - which doesn't seem highly likely, but if analysts are correct in next year's assumptions, it would mean that profit margins hit a record high. That may be a bit of a stretch. I'm not a bear on earnings. I don't think we have serious problems in earnings. It's just a lot of caveats now when you look at valuation. That said, the numbers are what they are. You can do valuation analysis. The Magnificent 7, still trading at about 30 times earnings. X the Magnificence 7, you're more in the teens.

(24:22.958)

If you slice and dice it another way, if you just look at the overall S&P 500, trading at about 22 forward earnings, but if you do the equal weight version of the index also in the teens. So, some of it is a function of what segments of the market you're looking at. If inflation can stay fairly contained and we don't see a collapse in earnings, valuations are still rich.

But I don't think it's a huge imminent hindrance for the market, in part because valuations are a terrible market timing tool. If you have a 10-year forward look and you say, OK, let me array different valuation levels and then see as a start point what the market has done historically 10 years out, there is a strong relationship. If you do, say a scattergram and you plot PE ratios for say, the S&P 500, and then subsequent one year return, there is literally no correlation. The dots are all over the scattergram. And the R squared line is, there's just no correlation. It's like 0.0 something. So, we can gauge valuation and judge whether it's on the more expensive or more cheap end of the historical spectrum, but boy, it's a terrible market timing tool. Not that there is a great market timing tool, but that's certainly not one of them.

Mike Bissett:

Well, I haven't found one anyways.

Liz Ann Sonders:

Neither have I.

Mike Bissett:

I wish I could, but I haven't.

Well, thank you. So, I guess we just touched on it as we opened up, certainly interesting times, both domestically and globally. But do you expect geopolitics and/or the election to have an outsized impact on the market?

Liz Ann Sonders:

Short term possibly with some bouts of volatility, but in terms of geopolitics and crises, even of the military variety - of course of which we're dealing with at the present moment, maybe surprisingly they don't tend to have typically long lasting impacts on the market unless the combination of turning into a seriously protracted kind of thing that brings a lot of sort of factions in...and maybe, really in particular, if it feeds through the energy channels into a significant change in the supply demand fundamentals of oil, a significant move up in oil prices, then obviously that generally is a feeder, not just into the economic backdrop, but the market backdrop as well.

(26:45.716)

So far, we have seen some shorter-term volatility associated with everything in the past year, with Israel and Gaza, and now Iran, but we're not seeing the kind of protracted spike in energy prices that would start to cause some concern. In terms of the election, you know, no matter what happens, we're probably going to see the divisions in Congress be narrow enough that you really want to take with a grain of salt policy proposals, and understand what actually has the possibility of becoming policy.

And I'm very fortunate because I never weighed into partisan politics. I'm a registered Independent, so I almost feel like I have that platform to either be an equal opportunity critic, or these days more of an equal opportunity critic. But we have a team in Washington, particularly our colleague Mike Townsend, and working with him is Hayden Adams. They get into the weeds of this stuff. What are the policy proposals? Particularly when we get to the election and past, what is the makeup of Congress? What can be done via executive order? What can be done via congressional approval? What's the timing of all of these things? And importantly, what are the implications for investors - whether it's on regulatory policy or tax policy? But it's way premature. And it's frustrating to me to see headlines on either side of, "Harris wins and taxes are going through the roof" or "Trump wins and taxes are going way down." That's not how it works. So, I think that the kind of volatility that can sometimes happen in the lead into an election, you can tie it to polls, but trying to trade around that is a fool's errand. And I have two anecdotes that really, I think, drive this message home about not kind of playing politics with your own portfolio.

(29:06.88)

There are 11 sectors in the S&P 500, most people know that, one of which is the energy sector. Now, the energy sector in the S&P 500 is all traditional energy companies. It's dominated by Exxon Mobil and Chevron, but the rest of what's in there are the E&P companies and the major drilling companies. There's no solar companies or green energy or renewables companies in the S&P. And the reason why I qualify that is most people assume and think of Trump as pro-traditional energy and Biden/Harris as pro-green energy renewables. But here's what actually has happened. From inauguration day to inauguration day, under the Trump administration, of 11 sectors, energy was the single worst performer by a massive margin. Out of those 11 sectors, it was the only sector down in that four years. It was down 40%. The next worst sector was up 20%. So, it was 60 percentage points worse performance for a sector that was seen as benefiting from Trump. Fast forward to the Biden/Harris administration from inauguration day to yesterday's close. Guess what's the best performing sector? It's the energy sector up about 120%. The next best performing sector up about 90% is tech. So, about a 20 plus percentage point spread with energy at the top.

The point is not that secretly behind the scenes, Trump was actually anti-traditional energy and Biden/Harris were secretly behind the scenes, pro-traditional energy. The point is that there are so many other forces that impact what sectors do, what stocks do. We get in this sort of our own heads with regard to politics and extrapolate, I think to the danger, especially when it's emotional decision-making, but the real exclamation point, and we put a lot of this data in a that we wrote about a week ago called, "Party in the USA," and it's just the history of elections and political party and what markets have done and what the economy has done. But the real punchline is you go back to 1948, to the post-World War II era, $10,000 invested in 1948 in the market in the S&P only when a Republican was in the White House grew to $311,000.

(31:31.682)

That same $10,000 invested in 1948 in the market only when a Democrat was in the White House had grown to $1.2 million. This is through the end of 2023. Now there are people, and the people would most likely be Democrats, that stop the analysis there and say four times better performance under Democrat presidents relative to Republican presidents. That's factually true, but shame on anybody that stops the analysis there because $10,000 invested in 1948, paying no attention to whether the Oval Office was painted red or blue and kept in the market until the end of 2023 - that $10,000 had grown to $38 million. I don't know about you, Mike. I'm taking the $38 million.

Mike Bissett:

Absolutely. Do you think, and maybe not a fair question, but when we think about global versus domestic as investors, should we be concerned or focused on one more than the other?

Liz Ann Sonders:

I think it's an "and", not a "versus" or not an "or." And we've been emphasizing that we're now getting...we're already in, quite frankly, really the last two years of this domestic bull market. International has done well. And there are some segments of international that have actually outperformed the US, but it's and, and not an or. So, our message has been more around, don't shun the benefits of some international diversification. It's not the same thing as saying, sell all your US equities, back up the truck and load up on nothing but international. And then within international, our leanings have been within the developed. And we've leaned more toward developed markets over emerging markets. But within developed, our bias has been Japan. And within emerging markets, our bias has been not China, but India. And that could change. Jeff Kleintop is my colleague who is our international strategist. So that's the world he lives on a day-to-day basis. But that's a broad answer to that question.

Mike Bissett:

Yeah. OK, thank you.

And what about the consumer, because everyone's listening to every sound bite, every news, but the consumer has been pretty strong, right? Are we seeing any cracks there? And is that leading to some of this action?

(33:57.998)

Liz Ann Sonders:

Yeah, consumer in the aggregate has been strong, but sure, there are cracks. And I think this is an environment now where you can't look at the consumer through a monolithic lens. That you're seeing big differences in terms of whether it's confidence level. The conference board - which I already mentioned as the provider of the LEI, they also have their consumer confidence index that comes out on a monthly basis - very widely followed. A lot of people don't realize that there's a lot of subcomponents to that, including confidence at the income level.

So, conference board breaks income into four different levels. I think the highest level is $115,000 and up in terms of just compensation. And I think the lowest is $15,000 and less. And then the other two are in between. The only income category where confidence has been rising recently, maybe no surprise, is the highest category. The other three categories have seen declining consumer confidence. If you look at things like defaults and delinquencies, that has really, really picked up down the income spectrum into the subprime categories - whether it's for credit card loans, or auto loans, or mortgage delinquencies. So you really do have to kind of take that fine tooth comb and look at where we sit on the spectrum in terms of things like the savings rate, or the excess savings as it's been termed - referring to all the stimulus and what's left of that stimulus. In the aggregate, it looks like there's still some of that excess savings, but that is absolutely biased up the income spectrum.

Traditional savings rate, excess savings, has basically been drawn fully down the income spectrum. So, I think, though, the key to the aggregate keeping consumption as a positive driver for the economy - which it clearly has been, has been the strength in the labor market. I think that's the connectivity, more so than things like the savings rate or income. I think it's that confidence in the labor market. So as long as the labor market continues to perform well, I think that's the primary support for consumption. In turn, as a potential risk, if last month's great jobs report was a fluke and we start to see more acute deterioration, which is not our base case but it's important to talk about risks, I think you would see that feed into weaker consumption pretty quickly.

Mike Bissett:

Okay. Great, great.

(36:21.55)

I'm monitoring our Q &A. We definitely have some work ahead of us. But I guess one question maybe to wrap up and then we could go to the Q&A is just in general, what would you say are the most important takeaways for investors in this environment and even just in general?

Liz Ann Sonders:

Well, this may surprise you, Mike, but I'd say one of my takeaways is almost everything we've talked about today doesn't matter. And what I mean by that is it doesn't matter what we know - meaning what's going to happen, what the market's going to do, what the Fed's next move is, what the next CPI report is going to bring, whether next week's retail sales report is going to show consumption faltering, where valuations sit on the spectrum. It's what we do along the way. It's the disciplines that maybe aren't as interesting to talk about, diversification across and within asset classes and periodic rebalancing. I think you try to spend five minutes on CNBC talking about that and eyes are rolling back in their head and they're like, we're never having you on again. That was incredibly boring, but that really is the stuff that matters. We get in, certainly, the emotions of whether it's FOMO or panic. It's additive when you have an election as emotional as this one. And we think we got to do something, and we've got to move. And it's what we do along the way and the disciplines associated with that matter. So that's sort of always my mantra, not just in this current environment, pretty much all the time.

Mike Bissett:

Great. Well, thank you. And as I said, we do have a decent amount Q&A, so unless there was anything you wanted to add, we can...

Liz Ann Sonders:

Now, I'm going to add something without context. I purposely didn't touch on a topic. And I do this somewhat as an experiment, because I'm always interested to see how quickly somebody asks about it. So, I'll leave it at that. I'll tell you right away if somebody... and if nobody does, I'll bring up the topic, because I think it's an important one. Let's hear the questions and see how quickly...

(38:46.358)

Mike Bissett:

Here's the one, and I swear I know who asked this one, but obviously you do a lot of interviews. You do a lot of appearances, and you're asked a lot of questions. Are there questions or a question that you don't get asked that you're surprised you don't get asked, and that you think maybe is important?

Liz Ann Sonders:

Well, yeah, I think a question like what you just asked me before this, maybe some version of what really matters to investors, because especially in the world of financial TV, everything is very fast paced. There's a lot of reactionary type questions. I'd say the most common question I get if we're in a tumultuous period in the market, if it's a you know, one of those CNBC "Markets in turmoil" specials at 7 p.m. at night, one of the most common questions I get is, "OK, Liz Ann, what are you telling your investors to do? Get in or get out?" And it's such a stupid question, frankly. And I...but I love getting it because I get to explain why it's a stupid question. Neither get in nor get out is an investing strategy. All they are, are gambling on two moments in time. And investing should be a disciplined process over time, never about a moment in time.

So, I wish the better questions were asked. We know what everyone's been talking about today, and we get people on that have year-end price targets, and they make bombastic forecasts of what the market's going to do. And that's what garners attention and clicks and hits. But what are the questions that are really important? What really matters? It's just not maybe as exciting to talk about, so nobody's going to ask those questions. But those are the better questions to ask.

Mike Bissett:

Right. And so, it's the sound bites, right? It's what gets the clicks and what gets attention. And a lot of times what we're seeing is the scary sound bites get the most clicks, right?

Liz Ann Sonders:

Oh, 100%.

Mike Bissett:

That's what it's, you know, and sometimes you worry about people because that's what's driving a lot of the content that they're digesting, right?

Liz Ann Sonders:

Correct.

(41:10.348)

Mike Bissett:

I think you sort of touched on this, but maybe we'll give it a try. What sectors or industries do you see as potential winners or losers, depending on, and I know you talked about, you would assume Trump did really well on the traditional energy. Do you think it's something we can think about? What sectors will be winners or losers based on who the winner or loser is?

Liz Ann Sonders:

I would absolutely, unequivocally, not tie sector views to the election and its outcome. Now we have actually something called sector views. Schwab relaunched them at the beginning of this year after about a two-year hiatus, in part because there was so much sector volatility in terms of leadership without any fundamental, or not much of any fundamental underpinning. In addition, the engine, the quantitative component of the engine behind Schwab sector views, is the same engine of Schwab equity ratings.

So, we rate at least domestic terms more than 3000 stocks, ABCDF. It's actually factor-based in its engine. And that's the same engine that ultimately is the quantitative component of sector views. And then me and my team in Schwab Center for Financial Research, we then sort of have a qualitative overlay that we apply. So at all times we have ratings on all 11 sectors. And the ratings are outperform, market perform, neutral, and underperform. Right now, we have two outperform ratings, one underperform rating, and the rest are in that neutral and market form category. So, the two outperform ratings are materials and financials, and the one underperform is on consumer discretionary. And the rest are in that neutral category.

But importantly, I'll go back to what we touched on a little while ago in our conversation. We think factor-based analysis is more of a winning strategy or as an addendum to any sector-based analysis. So, we wouldn't just stop with that monolithic, just buy whatever in financials and whatever materials and you do well, or just don't buy anything in consumer discretionary. We think it's the factor analysis and screening should be an overlay to the perspective on sectors.

(43:34.402)

Mike Bissett:

Thank you. So, here's one that I think is a little different than what we've covered. For beginners, beginner investors, what are your thoughts on some of the non-broker type apps like Robinhood and others? In general, your thoughts on those?

Liz Ann Sonders:

Guess what I'm going to say.

Mike Bissett:

And while I know who you work for...

Liz Ann Sonders:

I think you're better off at Schwab than a Robin Hood. I don't, I don't cover Robin Hood as a stock. I obviously don't work there. I don't analyze the company. But I do know that even they had to sort of back down off the literal bells and whistles and confetti and, you know, the gamification of investing. And I just don't think this is a game. I don't think we should treat it as a game. It troubles me that time horizons have gotten so short, and I don't think it's to the benefit of the success of investors. So I think investors should approach this as an investor, not a game player, not a gambler, not with short-termism. So, I think that there are firms like ours - we're not the only one, with zero commissions. You can have really robust trading platforms if you want to have some of that skin in the game. But I think it's also the provision of the kind of intelligence, and education, and long-term focus, and in the context of actually having a plan that is so important, especially when just starting out. Don't wing it. This is not an area in life where you want to wing it.

Mike Bissett:

Yep, no, I agree. AI, where do you see, particularly around investing, where do you see that going and what are your thoughts on the impact that it may have?

(45:54.286)

Liz Ann Sonders:

I think that there have been a couple of points where you've sort of seen the AI narrative shift a little bit. I don't always think of everything in calendar year terms, but it's just a neat, clean way sometimes to think about shifts that happen - not that they precisely happened based on the calendar year. But last year in 2023, where you really started to see the dominance in those AI-related names, most of which are Magnificent 7-tied, I think the initial narrative was very much about the infrastructure, the creators of AI.

Then I think it really started to morph into this year into the adopters of AI. You know, in particular, first quarter earnings season, second quarter earnings season, you continue to see an increase in the mentions of AI by analysts on conference calls, but it was pretty much across industries and sectors. It wasn't just, okay, what did Nvidia do this quarter? But if you're a railway company, or you're an airline company, or you're a retailer, like what's your AI strategy? How are you thinking about it? How are you adopting it? What do you see the benefits accruing to your business associated with that?

Then I think there was an important shift that happened. In this case, it was largely concentrated in the second quarter earnings reporting season where you started to see more meat go on the bones in terms of what are we spending. What are the expenses associated with AI? And when and by how much do we expect it to hit productivity and/or the revenue side? And what I think came out of that season was: hmm...this is not commensurate from a timing perspective. Huge expenses, but there isn't necessarily the immediate gratification of a huge boost to productivity or big revenue generation. And I think that if you wanted to have a fundamental reason to point to for the mid-July correction that started with those names leading on the downside, I think you could point to that. So, I'm a big believer. I just think maybe there was a little bit too much enthusiasm about the immediacy of the productivity benefits and/or the revenue generation. It's coming, but we might need to be a little patient.

(48:15.726)

Mike Bissett

OK, well, I couldn't ask about AI without going to probably the previous buzzword or sound bite which is crypto and what you know. There we go. So, I got my answer. Do we have to even go any further?

Liz Ann Sonders:

I'm the ultimate crypto skeptic. It's not a currency. If anything, it's more of a cult. It's not...it doesn't meet any of the definitions of a currency, store, a value medium of exchange, not backed by anything. It is not taking over from the fiat currency that is the US dollar as the world's reserve currency. I avail myself of as much information as I can from experts, from true believers, and I understand the power of the backdrop of blockchain and the benefit of de-banking to some degree and providing access to, you know, the ability to transact outside of the traditional. I get all of that. I'm a believer in all of that. The one question I always ask the big crypto believers that personally I've yet to get a really compelling answer to is: What problem is this solving for?

And for a while there, when we first had all the enthusiasm, it was, "Well it's the ultimate inflation hedge." Well, the rub, of course, is that the biggest surge in inflation we've had in more than 40 years was met with Bitcoin having a 70% drawdown. I know the way I define hedging against something, and that's not it. And then people say, "Well, it's uncorrelated to the more high beta parts of the market." Well, it's become very highly correlated to parts of the market like the NASDAQ 100.

So that doesn't mean...lots of people have made money. And if you want to speculate, have at it. I just don't think that there's a lot of there, there from a true fundamental perspective.

(50:31.022)

Mike Bissett

I really appreciate that. Because probably on five different occasions, I was convinced I knew how it worked, only to find out I don't really know how it works.

Liz Ann Sonders:

Well, you know, when people say, Bitcoin is still in its infancy. It's been around since 2009. Venmo has been around since 2013. I use Venmo all the time. I wouldn't know how to pay for something with Bitcoin. I just think 2009 to 2024 in the world of technology and innovation, man, that's a long time for something not to have taken off as a medium of exchange.

Mike Bissett:

Right, because I think everybody's grandmother is on Facebook, right? So, some of this technology has been adopted, so it has had plenty of time.

Question, probably a little bit different, but somebody asked. Looking back now, if you could tell yourself anything when you first started in this industry, what would you tell yourself?

Liz Ann Sonders:

Yeah, I love that question. What I would tell myself personally is sock away as much as you can. Start saving, start investing. When you're 21 years old and you're just starting out, this for me was in 1986 and I didn't make a lot of money and had to pay rent. And I think I would have just said to myself, just squeeze out a little bit more. Start that IRA right away - there was no 401(k)s at the time. Just the power of starting early. I think I would have really driven that home to myself knowing what I know now.

Mike Bissett:

Yeah. All right. Great. Thank you. And this one is one I'm curious about, is "What are you reading? And what are kind of your go-tos?" Whether it would be - maybe when you read, you don't want to read things about investing and things like that. But if you do, who do you read? Who's your go-to? And if you want to get away from the investing world, who do you go to?

(52:51.4)

Liz Ann Sonders:

So, I read constantly. I drink from a fire hose of information. Almost all of which on a day-to-day basis is market-related, economy-related, but veers off into geopolitics and world affairs. And it's not drudgery. I love it. I'm driven by it. It's obviously important for what I do in my day job.

There is not sort of one go-to. It is everything from all of the research that we get from a lot of the traditional research providers of the big wirehouse firms to more boutique research providers, both at the bottom up sentiment level and technical, and lots of historical databases and charts, to research at the sector level, to big picture macro research. Ned Davis Research, or Strategas, or Bespoke Investment Group, or Ben Credit Analyst, or Capital Economics, or Gap Cal. I mean, the list goes on and on. So that is, you know, fed into my inbox every day.

I have a love-hate relationship with social media. I'm on LinkedIn, I'm on Twitter, now X. Those are the only platforms I'm on. I've had a rash of imposters. You and I, Mike, were talking about that before we came on camera. So, I have a love hate relationship just because I think that there are a lot of nefarious players. There's a lot of bullying. I am most active on X. You have to be careful on social media because there is a lot of noise and a lot of nonsense, but there's also a tremendous amount of valuable information. And when I rattle off a lot of the research providers that we have partnerships with and we get great information from, or even the fact that I've got a Bloomberg terminal - which most people are not going to spend the money for that. The one benefit of a platform like Twitter is a lot of these research providers where if you're going to get their research every single day, it's a lot of money, is they provide their research out there in the public domain. So weed out a lot of the noise, particularly the partisan politics kind of stuff. There is a lot of really valuable information.

As far as what I read, I'm more of a listener these days because I can multitask. So, audio books, but I'm a big podcast listener. So, some of them are market-related podcasts. We have a podcast now that I co-host. It's coming up on a year. It's called “On Investing”. So, I listen to my own podcast sometimes. But then there's fun podcasts. My favorite fun podcast is "SmartLess" with Will Arnett, and Sean Hayes, and Jason Bateman. That is just pure joy and fun and escapism. So that's my list.

(55:09.272)

Mike Bissett:

Very good. I happen to be a podcast guy myself. I think I've subscribed to too many, though. When I go out for a run, it takes me 15 minutes to pick one. Just to figure out which one.

Liz Ann Sonders:

Absolutely. Well, you've got to make sure you add "On Investing" to your list, as I pitch my own podcast.

Mike Bissett:

Absolutely. Absolutely. I really appreciate it. I appreciate we had a lot of questions. I think we covered a lot of ground.

Liz Ann Sonders:

The question, and it didn't come up, and we don't need to go into detail answering it. We've got stuff on Schwab.com on the subject. It's just the deficit and debt. That usually bubbles right up, and certainly in live audience. First question: "I'm surprised you didn't mention the deficit and debt." And I'll often say, well, I didn't mention on purpose...sort of an experiment to see how quickly... But we have thought pieces and FAQs on the deficit and debt. We think it's a major problem, but not some moment in time tipping point that's gonna result in Armageddon. That's the short story behind that view.

Mike Bissett:

Well, we probably have a viewer who is right now banging his desk or her desk saying, I did ask that question because as I was scrolling through, I saw it.

Liz Ann Sonders:

There you go. Yeah, I would have been shocked if it wasn't somewhere in the queue.

Mike Bissett:

Yeah. I, in full disclosure, I kind of lost track of it and couldn't get back to it.

Liz Ann Sonders:

The investor class cares about this subject deeply. The average constituent maybe cares about it in the abstract, doesn't vote based on it. And as a result, no one in Washington on either side of the aisle cares a lick about this.

Mike Bissett:

They don't care about things they can't fix. So well, thank you so much. I want to thank everybody for joining us. We're just about out of time here, but I want to thank everybody at The Retirement Plan Company and Schwab who made this possible. I want to give a special shout out to Madison Hansen. She's been behind the scenes doing a lot of the work here. Also, some folks at Schwab that helped us.

(57:27.434)

And also, a special thanks to you, Liz Ann. We really appreciate you taking the time today.

Liz Ann Sonders:

My pleasure.

Mike Bissett:

So have a wonderful day.

Liz Ann Sonders:

Thank you.

Mike Bissett:

Thanks.