

the EDUCATED INVESTOR

FEATURE ARTICLE

May 2011

A Q&A With Bill Schultheis, The Coffeehouse Investor

Overview: Bill Schultheis wrote the first edition of *The Coffeehouse Investor* in 1998, and ever since he has been educating investors about the importance of following his book's edict — how to build wealth, ignore Wall Street and get on with your life. The third edition of his book, *The New Coffeehouse Investor*, was published in 2009. In this Q&A, Bill shares his *Coffeehouse* principles as well his thoughts on the current climate for investors, the importance of being disciplined and where he likes to go for his perfect cup of java.

If someone read *The Coffeehouse Investor* when it was originally published, what new messages and stories would they get from *The New Coffeehouse Investor*?

In many ways, they get the same successful, straightforward message that was originally introduced to readers in 1998. The three investment principles highlighted in the book are timeless: 1) Save for a rainy day (develop a long-term financial plan; 2) Don't put all your eggs in one basket (diversify among asset classes); and 3) There is no such thing as a free lunch (capture the entire return of each asset class through low-cost index funds).

The third edition includes four new chapters that cover:

- ▲ The challenges and complexities of drawing down one's portfolio throughout retirement. I emphasize the importance of creating a financial plan, implementing the plan and then revisiting the plan on a consistent basis to make sure you are on track to reach your financial goals.
- ▲ The wisdom of sticking with the three *Coffeehouse* principles in all types of markets and not succumbing to the empty promises of Wall Street, especially in bear markets.
- ▲ The phenomenal growth of index funds, especially the construction of so-called fundamental index funds, and the explosion of exchange traded funds. I point out how one can trade these newfangled products in the same manner as stocks, ending up with the same disastrous results.
- ▲ The challenges placed before us in building wealth, ignoring Wall Street and getting on with our lives. I discuss the role the *Coffeehouse* philosophy plays in allowing people to focus on their essential creativity, which the world needs now more than ever before.

The past few years have been rough on a lot of people. Has your message changed during this time, and have you noticed a change in the way people view investing in general?

If anything, the past three years, and the past decade, have steeled our resolve to embrace the timeless *Coffeehouse* principles. Because of the massive amounts of fraud generated by the Wall Street crowd over the past five years, there seems to be a general mistrust of the financial industry. *The Coffeehouse* philosophy allows investors to place their trust not in Wall Street but in themselves and the collective creativity of human beings around the world. A large percentage of investors *want* to take control of their financial well-being. The three *Coffeehouse* principles allow them to do just that.

You are an advocate of saving for a rainy day. What's the weather like for investors these days? Is it different for different generations?

Whether you are 25, 45 or 65, the three principles work, especially for those who take to heart the need to create a financial plan to determine one's risk, then put that asset allocation into action.

Let's look at the last three years, which included the worst bear market since the Great Depression. For a 65-year-old retired investor who only had 35 percent in the market, 2008 was hardly the devastating downturn highlighted by the financial media. That person experienced a decline of only 8–12 percent of his or her portfolio.

On the flip side, a 25-year-old who had 75 percent in the market should have been celebrating the 2008 market decline. With their best saving years in front of them, this generation will be much better served investing in a stock market with lower valuations and expected higher future returns.

In your book, you write the story about Bob, who had to go back to work instead of retiring because he failed to heed the message to diversify. How often do you meet people like Bob, who simply can't stop believing that they will indeed beat the market?

I run in to people like Bob all the time, investors who didn't heed the three principles and are delaying their retirement by many years. More and more, I don't think it is an issue of "beating the market" for these investors. I think it is a complete lack of clarity on what is and is not important toward reaching one's financial goals. There are so many moving parts, and so many things to consider in managing one's wealth, that the average intelligent investor hardly knows where to start.

You wrote in your blog that, because of your job, you have to ignore your own advice and pay attention to what's happening on Wall Street. What do you follow when you do tune in to Wall Street, and is there *anything* passive investors can glean from following the market?

I keep a close eye on the 10-year Treasury note and interest rates in general; they are good barometers of economic activity.

In your blog post about the price of Microsoft stock, you wrote, "When you invest in a stock, you really aren't betting on the good fortunes of a company." That might be difficult for some to wrap their brains around. How do you explain this concept to investors?

I use the example of Microsoft, and its poor stock performance over the past 10 years, compared with its continued impressive earnings growth. Microsoft doesn't have some committee that sets the price of its stock. For the most part, it has nothing to do with its stock price. The price is set by you and me, buyers and sellers of the stock in the public marketplace. Certainly, events like share buybacks can impact the price of the stock, but only over the short term. And of course, if the price of a stock gets too low, a takeover bid might be presented to shareholders, which could affect the price.

Let's close with a couple of non-investing questions: How did someone who grew up on a wheat farm in eastern Washington become a Packers fan? And how special was Super Bowl Sunday for you?

Growing up in small-town America, Friday night football was a big deal, with our small high school of 125 winning three state championships. In the late 1960s, when I discovered football, Vince Lombardi, Bart Starr and the Green Bay Packers were the coolest thing going. I've always been a Packers fan.

Super Bowl 2011 was special for me, as I traveled to Florida to connect with an aging client who is confined to a chair. Side by side, we watched the entire game, the first time I have watched a Super Bowl in years — and a great memory at that.

Finally, what is your favorite coffeehouse and what's your order?

With little coffeehouses popping up all over the 'hood, there is a little joint called Caffe Ladro. It's a nice place to hang out, stare out at the drizzling rain, and drink my single, tall, decaf, no room Americano!

About This Q&A

A special word of thanks to author Bill Schultheis for graciously answering our questions. He has lectured and led seminars about being a disciplined investor ever since the first edition of *The Coffeehouse Investor* was published in 1998. Bill also writes a newsletter and a blog, which are available at www.coffeehouseinvestor.com. He lives in Kirkland, Wash., where he spends his free time climbing mountains, playing golf in the rain and writing about investing.

This material is derived from sources believed to be reliable, but its accuracy and the opinions based thereon are not guaranteed. The content of this publication is for general information only and is not intended to serve as specific financial, accounting or tax advice. To be distributed only by a Registered Investment Advisor firm. Copyright © 2011, Buckingham Family of Financial Services.