



Ron Rogé on the Banker and the Fisherman

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Ron Rogé is Chairman and CEO of R.W. Rogé & Co., a Bohemia, NY-based fee-only wealth manager. In 2006, *Investment Advisor* magazine chose Rogé to head up its list of the 25 Most Influential People in and around the Financial Services Profession. He is frequently quoted in the financial media. His book, *The Banker and the Fisherman – Lessons in Life, Happiness & Wealth for the 21st Century*, is available via the link above.

We spoke with Ron on February 13, 2009.

Where does the title of your book come from?

A client – a psychiatrist - brought us this story. A banker meets a fisherman in a small Mexican town. The fisherman shows him the fish he just caught with very little effort. The banker says he could spend more time fishing and sell some of the fish. In time, he could expand his business, buy a fleet of boats, build a huge company, and reap a windfall through an IPO. Then he could retire move back to the small town and sleep late and still have time to fish a little.

Nobody knows who wrote it. The fact checkers working with our publisher could not find its source. We published it in our newsletter (*The Rogé Report*) and we got a lot of positive feedback, especially from older people. They wished they read it when they were younger. As they look back on the time they spent running their businesses, they regret not spending as much time with their families and on the more meaningful aspects of their lives.

Stop and smell the roses. Slow down a little and think about what you really want. Don't focus on money; focus on what is really important to you.

In the mid-1990s, I was at a NAPFA Advanced Planners Conference in Cancun. A rabbi was invited to speak and he bowled over the audience with his presentation. He asked each person to write down the letter "B" on the left side of a piece of paper, representing when they were born, and the letter "D" on the right side, representing when they would die, and to



draw a line connecting the two. Then we were asked to write an “X” to indicate where we were currently on the line.

I was 50 at the time, and put an X in the middle. Another advisor, who happens to be the same age as me, put his X about a quarter of the way from the “B.” He must be a lot more optimistic about medical breakthroughs.

This exercise forced us to focus on the time between the “X” and the “D” – the finite time we have on Earth. The rabbi spoke to the importance of spending time on what really matters. He spent a lot of time consoling the sick and dying, and he said nobody on their death bed ever told him they wished they spent more time in the office.

Our book is a collection of the best essays and articles we have written over the last 15 years. Most were published in *The Rogé Report*, and we decided to put them together in a book.

Your book contains a number of life lessons and philosophical musings. It was also written before the current financial crisis. Has this crisis caused you to rethink any of the advice you offer?

Several of the essays we wrote are every bit as meaningful today as they were when we wrote them. For example, “To Hedge or Not to Hedge” warned investors about the risks of hedge funds. “Your Home is No Longer Your Savings Account” warned people about the ephemeral nature of rising home values. In 2002, I wrote “The Ten Commandments of Investing,” and every bit of that advice still holds today.

If you have 100 years to live your life, how do you want to spend it? For most of us who grew up in traditional families, we don’t start to have these “big picture” choices until we are well into our twenties. But it is never too early to start thinking about what is really important. We provide some tools to help in that process, including how to invest on your own, how to manage your insurance needs, and how to start with estate planning.

One of the lessons you learned from your father is that “emotion is the enemy of reason.” How does that apply to the capital markets today, when the overwhelming emotional sentiment is negative?

In the last few days, I have had conversations with several clients, basically talking them “off the ledge.” All are very close to retirement or are retired. They are really emotional, but they also understand. They



don't blame me or the financial advisory profession; they blame the system.

One big difference between this crisis and other bear markets is that now we are hearing from clients. During the recent three year bear market (2000 -2002), clients were mostly silent. We had to reach out to them to find out what they were thinking.

This system failure was tantamount to a tectonic shift and the ground is shaking. That is very unsettling. Clients can't trust their bank, their money market funds, politicians, or government in general. They feel very vulnerable and don't know what to do

Some clients wanted to go to all cash, which we discouraged. We moved them to a low volatility portfolio, and they understand they will miss some of performance of the next bull market.

Many clients are struggling emotionally. But on the other end, many clients understand this crisis will not last forever.

Your overall advice is to live a more balanced and simplified life. When you wrote the book, the market was about twice as high as it is now. Clients now have far fewer options to follow this advice. What advice do you offer to those who face unemployment and severe economic stress?

I am getting calls from the press about a topic I could not get them to write about three years ago: emergency funds. The wisdom of these funds is timeless. Your first order of business is to establish a three-to-six month emergency fund with liquid assets, so that you don't have to disturb your portfolio in times of crisis.

Everyone is scrambling now. I just had a conversation with a family where both spouses had lost their jobs. Emergency funds are there for that kind of situation, so you can get through these times with less emotion and panic.

Given the current dislocations in the markets, particularly in areas such as Treasury, municipal, and corporate bonds, how have you modified your traditional asset allocation models for retirement portfolios?

Our asset allocation models worked in this crisis. All our portfolios are globally balanced, and the majority of clients were down 18%-25%, versus 37% for the US market. Asset allocation helped mitigate some of the loss.



Diversification within the equity allocation completely failed in 2008. Almost all equity funds were down 40% to 50% in 2008.

We have not modified our risk categories, but we have changed some of the investments inside our model. For example, most accounts now have a 10%-11% exposure to the PIMCO All Asset All Authority Fund (PAUIX) and the PIMCO Global Multi-Asset Institutional Fund (PGAIX). The latter is a new fund run by Mohammed El-Erian which we believe will provide good performance with lower volatility.

We have taken some of the risk out for our clients' portfolios. We had owned the Loomis Sayles Bond Fund (LSBDX) until we decided to cut back in early 2008 and move into the PIMCO Total Return Fund (PTTRX). We did not complete this move until June of last year. Had we completed this move all at once earlier in the year, instead of doing it in stages, returns would have been better.

We also stepped up our commitment to the PIMCO Total Return Fund (PTTRX). [Ed. Note: PTTRX is among the [most popular funds](#) in the Advisor Perspectives universe.] PIMCO has done a remarkable job calling the direction of this crisis. They are working directly with the government, so we know they are well-informed and we rely on them for that intelligence.

We have a couple of market neutral portfolios that were down about 15%. We also have an ultra-conservative portfolio that has held steady, and we put our really nervous clients there.

What about the risk of inflation in retirement portfolios? Have you stepped up your inflation protection? If so, how?

We use a four percent inflation assumption in all our financial planning, even when the actual rate was only one or two percent. We anticipate inflation will accelerate, but we don't know when it will kick in. I expect it will be at least a year before this happens, although interest rates are starting to tick up now.

Our fixed income investments will be most affected by inflation. Inflation is not good for bonds but, at the same time, corporate bonds are very attractive right now. We are just now beginning to build our exposure to TIPS in the fixed income asset class to prepare for eventual inflation. The PIMCO funds have allocations to TIPS.



We are watching every day for signs of inflation. We are tweaking our exposure to high volatility funds by building up our positions in the PIMCO Funds mentioned above and other lower volatility funds. When we rebalance, some money is going into cash instead of equities for clients who are losing sleep. All of this tweaking of the portfolios has been helping. Our portfolios are positive since the market reached its low on November 20, 2008, in spite of the horrible market performance in January 2009.

I don't like to make short term forecasts. We are better at looking out two to three years. Actually, some of our clients have called the short term direction of this market better than we have. It's tough taking the leadership role when our more nervous clients have been right over the past six months. We've become better listeners and worked with them to make their portfolios more conservative. In a few cases we have adjusted their portfolios to our ultra conservative risk model, but only after advising them that their portfolio will not participate as much when the market does turn around. We also know they will not be happy when that happens.

Have you heard of any cases where your book has already had a positive impact?

The lessons of the book are more appropriate today than when I wrote them. I get consistently good feedback from readers, many of whom are giving copies to their children. One client said their daughter wanted to meet me, because she shared my philosophy about life.

For a number of people the book has had a deeper impact. One of my editors left the book on her coffee table. Her husband came home, read it without putting it down, and said it was really good. They live in Toronto, and their goal was to someday move to the suburbs. Instead of waiting until they were in their 50s, which was their original plan, they decided they would do it now while they are in their 20s.

They actually made the move a few months ago and are very happy about that decision.

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