THE GROUND RULES

SAVE, INVEST, AND PLAN FOR A LIFE OF WEALTH AND HAPPINESS

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BILL SCHULTHEIS



The Coffeehouse Investor's Ground Rules

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Save, Invest, and Plan for a Life of Wealth and Happiness

Bill Schultheis

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Contents

- Foreword vii
 - Preface xi
- 1 TWO LIVES BECOME ONE 1
 - 2 GROUND RULE 1: SAVE 17
- 3 WOMEN, WINNING IN WEALTH 31
 - 4 GROUND RULE 2: INVEST 47
 - 5 WALL STREET UNWOUND 62
 - 6 GROUND RULE 3: YOUR PLAN 79
 - 7 OUR ESSENTIAL CREATIVITY 96
- 8 CONVERSATION OVER COFFEE 112
 - Epilogue 127
 - Further Reading 133
 - Index 135

Foreword

Bill Schultheis starts his book with a simple reflection: *We* are changing the world, one investor at a time. Over the past 20 years, on countless exchanges I have had with Bill – in person, over the telephone, and through our emails – as we discover new and better ways to help investors reach their lifetime goals, we always seem to end by voicing the same intention.

We are changing the world, one investor at a time.

Our connection goes all the way back to 1998. That was the year I wrote my first book, *The Only Guide to a Winning Investment Strategy You'll Ever Need*. That was the same year Bill wrote his first book, *The Coffeehouse Investor – How to Build Wealth*, *Ignore Wall Street, and Get On with Your Life*.

Our books had at least three things in common: both attempted to explain complex investing concepts in a layman's manner; both highlighted the wisdom of capturing market returns through index funds; and both were published in the middle of a raging bull market fueled by the dot-com boom, when few investors paid much attention to efficient markets and index funds.

The bear market that followed was the catalyst for investors to seek out a smarter way to build portfolios. We were prepared with the solution.

FOREWORD

Bill Schultheis possesses the unique gift of simplicity in his writing. He takes dense financial terms bandied about on Wall Street and turns them upside down, so that after reading his work, you turn away from standard deviations, alphas and betas, to focus instead on wealth-building components that matter most of all in life.

For this reason, my firm, Buckingham Strategic Wealth, invited him to St. Louis in 2001, to speak to our clients. True to his book, Bill's presentation of stocks, bonds, and asset allocation evolved into a deeper exploration of using your financial resources to live a more meaningful life.

The late Jack Bogle spoke of the "missionary zeal" that he hoped to inspire, of taking the time to share with others the simple tenet of using index funds as building blocks for portfolios.

When I reflect on the past 20 years, Bill is near the top of a luminous list of authors, advisors, and academics in his passion for carrying on the work of America's legendary stalwart.

Our shared investing experience is based on decades of financial research, showing that markets are efficient. In an investing world consumed with owning the top stocks of leading industries, building lasting wealth requires a patient commitment to capturing the returns of global markets.

The investing process, however, is only one component, albeit an important one, to building lasting financial wealth. As Bill vigorously points out in this book, the primary benefit to embracing efficient markets in portfolio construction is that investors are emotionally freed to turn away from random, short-term volatility of markets, and focus on financial planning issues that are essential to lifetime wealth accumulation.

viii

Foreword

This is especially true for women, as Bill points out in Chapter 3. According to the consulting firm McKinsey & Company, a vast transfer of wealth is unfolding, as male baby boomers die, leaving assets to spouses for their control and management. It is estimated that by 2030, women will be in charge of \$30 trillion, an increase from \$10 trillion in 2016.¹

Bill Schultheis is uniquely qualified to discuss the challenges investors face in building lasting wealth. Working as co-owner and advisor of Soundmark Wealth Management in Seattle, Washington, he sees the same complexities faced by clients of Buckingham Strategic Wealth, of integrating tax-management solutions within the portfolio design of your comprehensive financial plan.

For 20 years our investing and financial planning discussions always seem to move to conversations about life. Bill has always pushed me to climb the mountains of the Pacific Northwest. I encouraged him to join me rafting the white waters of the Colorado River.

There comes a point in white-water rafting (and Bill has shared the same in his mountain-climbing experience), when you are in the danger zone; you have to slow the mind down, focus on what is at hand, breathe, and push on.

That is the experience facing the investor today. The global economy is in turmoil from the virus pandemic. Interest rates are at an all-time low. The Federal Reserve is flooding the economy

¹Baghai, P., Howard, O., Prakash, L., and Zucker, J. (2020). Women as the next wave of growth in US wealth management. McKinsey & Company, July 29. https://www.mckinsey.com/industries/financial-services/our-insights/womenas-the-next-wave-of-growth-in-us-wealth-management#.

FOREWORD

with money with the fear of inflation emerging. Significant tax law changes loom large on the horizon. Wall Street is inundating unsuspecting investors with meaningless and expensive financial products.

It is time for investors to slow down, breathe, and push on. The *Coffeebouse Investor's Ground Rules* will guide you to a life of wealth and happiness over the next two decades and beyond, as Bill's first book did for its readers.

I encourage you to grab your fresh-brewed coffee and enjoy Bill's thoughtful musings on investing and life. I have seen the impact these timeless Ground Rules have had on the lives of clients at Buckingham Strategic Wealth. They will have the same impact on yours.

As you embrace the Ground Rules, Bill and I invite you to share them with others. Together, we will continue to change the world, one investor at a time.

> Larry Swedroe, Chief Research Officer of Buckingham Strategic Wealth and Buckingham Strategic Partners

Preface

grew up on a farm, and I like telling stories about growing up on the farm. The things I learned on the farm have stuck with me throughout my life. It is the wisdom I share with you. I didn't grow up in the depression, but my grandparents did. They raised my mother and father in the depression, and I think that had something to do with how my grandparents managed their money. They didn't have online banking accounts. They didn't have mobile apps to buy and sell stocks. They didn't have a subscription to Morningstar to track mutual funds, and they didn't watch Jim Cramer on CNBC because they didn't have a television. They had a passbook savings account. This little ledger was the size of a passport, issued to them by the local bank, and they kept track of how much they saved and how much they spent, down to the penny. I know, because I have those passbooks in my possession as a keepsake of the memory of how money flowed through their life.

One grandpa was a farmer. My other grandpa was a banker. Maybe that had something to do with the meticulous financial records I kept in my own passbook savings account of the pigs I raised and sold, and the money I earned that was deposited into the bank at a savings rate much higher than the savings rates of today. That passbook savings account was our financial planning calculator. Life was simple back then, but it wasn't easy.

Everything changed in 1982. That was the year passbook savings accounts became passé.

PREFACE

That was the year I graduated from college and became a stockbroker. That was the year company-sponsored 401(k) plans were introduced to the workplace. That was the year the stock market started its 18-year bull market run, producing double-digit returns almost twice its historical average.

An almost unimaginable 18-year bull market run, combined with thousands and then millions of investors saving for retirement in workplace retirement plans, caused a monumental shift in our society away from a "passbook-savings mentality" of building wealth and toward a "stock-picking mentality" of building wealth.

It couldn't last forever, and it didn't. Everything came crashing down during the bear market of 1999–2002, when the S&P 500 index declined 47 percent over a three-year period and the techheavy NASDAQ index plummeted 78 percent from its highs. Investors who were building retirement plans on the backs of these high-flying stocks had their dreams shattered. Fortunately for them, a better way of building wealth was emerging.

Throughout the 20 years leading up to the dot-com bubble, an unconventional investment strategy was beginning to unfold. Led by Burton Malkiel's book *A Random Walk Down Wall Street*, and John Bogle's efforts at Vanguard, the simple concept of buying all the companies in a low-cost index fund was taking hold.

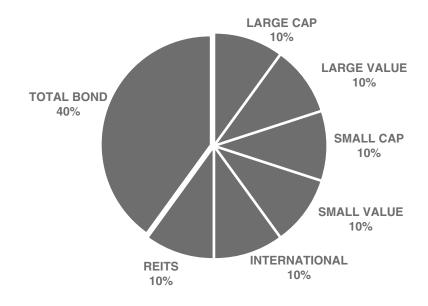
As luck would have it, 1998 was the year I introduced my book *The Coffeehouse Investor* to the world. Based on three timeless financial principles, its message was simple and profound – principles that form the Coffeehouse ground rules today: Save, Invest, and create a financial Plan for your future.

Soon after my book was published, I began writing a weekly investment column in The King County Journal; at that time Washington's third largest daily newspaper.

xii

Preface

When I began writing the column, I needed to get creative in describing a Coffeehouse Investor-type portfolio to the reader, and so I designed a 60/40 portfolio of Vanguard Index Funds that looked like this.



It seemed like every other week I reminded readers that my 60/40 portfolio *was just one example* of a Coffeehouse Investortype portfolio, but I guess you cannot stop a good thing. My seven-fund portfolio took on a life of its own with investors across the nation, highlighted early on by Paul Farrell and his Lazy Portfolios at www.marketwatch.com.

The merits of this portfolio is still endorsed by "Slice & Dice" advocates and its return, going back to 1999, is closely monitored in the "Madsinger Monthly Report" at www.bogleheads.org.

Despite its enduring popularity, the portfolio's benefit isn't found in its specific construction nor its 20-year returns. It is found in investors "capturing their fair share of market returns" over time, as Mr. Bogle was fond of saying.

PREFACE

Since then, I have witnessed the life-changing impact of these ground rules on the lives of investors across the nation and around the world. Slowly, investors started turning away from a"picking stocks" mentality and returned to the "passbook savings account" mentality of building wealth.

The Coffeehouse Investor movement is part of a larger movement to embrace low-cost index funds as the preferred method of owning common stocks.

But the movement is much larger than index funds, because index funds and target-date funds are not some magical investment that secures your financial independence in retirement. These funds are simply building blocks within your portfolio that allow you to focus on what matters within your financial plan. The larger movement taking hold across our nation is a more meaningful vision of wealth and happiness.

For better or worse, we live in a society that has come to define wealth and happiness as an accumulation of "more" material things. Our empty pursuit of more is a byproduct of a capitalistic focus on bigger and better. In working closely with Coffeehouse Investors over the past 20 years as a financial advisor located just outside Seattle, Washington, these sages have redefined this pursuit of "more": more community, more creativity, more family, more sustainability, more equality, more of all those things that give you life, and nudge the global community forward.

That is what the ground rules are all about. We invite you to join us as we live our lives of wealth and happiness and share it with others. This book will show you how.

xiv