NARRATOR: Roth IRAs, CDs, stocks, insurance, your 401K – what are the right choices for your financial future? "***Your Money: Your Choices***" will clear up the confusion surrounding these concepts with clear and concise information. You'll get tips and tools that you can put into action right now to help save your hard-earned income in ways that will protect your future. Whether you're a single mom or a father of five, "***Your Money: Your Choices***" will put your money back in your control where it belongs!

Now here's your host, Hank Coleman.

HANK COLEMAN: From Main Street America, this is the "***Your Money: Your Choices***" podcast. I'm Hank Coleman. Thanks for joining us today. You can find me on my website, MoneyQandA.com discussing all things personal finance. That's also where you'll find the show notes for today's show. Be sure to email me, Hank@MoneyQandA.com with any comments or questions that you have from today's show.

There are very few things that strike the fear in the hearts of parents across the country than the thought of how they're going to pay for their children's college educations. We all want a better life for our children. That's the American Dream. We want our children to have a better life than we had, and so the thought of having to pay for college and where to come up with that money scares American parents. It does. We all have been there if we have children. Even if you have little children, you know that you're very concerned about how are you going to pay for their education.

And, it doesn't help that the price of college education has increased faster than the rate of inflation for over the past decade. In fact, the *College Board of America* recently released another study that said that in the past year, the price of a public 4-year college in University, just the tuition and fees for those institutions have increased by almost 5%.

It doesn't also help, if you want to look at private schools, private schools have increased their cost of tuition 4.2%. The price for room and board has increased by over the cost of inflation. Every year, the cost of college increases faster than the cost of inflation. And, it's a real big concern for parents, for politicians, for the entire country. How are we going to pay for college education?

But, this actually comes on the heels of colleges who have incredible endowments. We're talking about billions of dollars, hundreds of millions of dollars in endowments. And, colleges have people dedicated to managing that money, investing that money in things that you and I, as the average investor, hadn't even thought about investing in, and they use those endowments for the supplement, the operational cost of those colleges, and the budgets and the running costs.

So a lot of parents don't understand, if colleges have these huge endowments, then how can the cost of colleges be increasing faster than inflation year after year after year?

So I've got a great guest with me today on the show who's going to talk about college endowments. What they invest in, how they invest and more importantly, how you and I as investors can invest like a college endowment. So it's a very interesting idea, and it's a very interesting topic, and I'm excited to have our guest with us today.

Today on the show, we have Matthew Tuttle with us, who's the author of "***How Harvard and Yale Beat the Market: What Individual Investors Can Learn from University Endowments to Help Them Prosper in an Uncertain Market***". Matthew Tuttle's a certified Financial Planner and a partner in the Private Client Group, LLC. He's also the President of the Tuttle Wealth Management Company, a private investment management strategic alliance of the Private Client Group, LLC.

He's been interviewed by CNBC, CNN Finance, and is a frequent contributor to Forbes, The Wall Street Journal, SmartMoney and the Dow Jones Newswires. So I'm pleased to have Matthew join us on the show today.

I didn't really realize – a quick story – I didn't really realize the extent of how college endowments played into colleges' operating expenses. I went to a little private college in South Carolina that has an endowment, and they use a portion of the income from the endowment to supplement the operating costs. And, I happen to be the editor of the student newspaper, and this was during the bubble – the Tech Bubble of 2000. And, the endowment took a hit and so did the colleges' operating budget. Next thing you know, my newspaper budget got slashed by 10%. So it's kind of the sequestration – everything in the college got slashed by 10%. So I was really blown back, kind of, by how much the endowment affected everything on the college campus, and I was wondering if you could kind of talk about – first up, what is an endowment?

MATTHEW TUTTLE: Well, what an endowment is is it's kind of the funds that a University accumulates. You probably know because you went to a college. I know they're constantly hitting you up for donations.

HANK COLEMAN: Oh yeah. I get a flyer in the mail, like every month religiously.

MATTHEW TUTTLE: Oh yeah. And, I get something every month, and they have events, but at the beginning of every event, it’s always a “Donate money, we’re doing this, we’re doing that.”

Well, that money’s got to go somewhere, and it ends up in the University Endowment. The bigger the University, the wealthier the people who went there, the longer they’ve been around, the bigger the endowment. So you’ve got places like Harvard, Yale and The IVYs, and Notre Dame and you know, the real big schools have real, real big endowments that are then used to help supplement expenses.

HANK COLEMAN: Sure. In ’07, ’08 when you were writing the book, Yale’s endowment, you were saying, returned 17.8% annually over the span of 10 years – from about ’98 to 2008; and Harvard’s endowment was 15% return, while the S&P was only at 7.1% return during that same amount of time. Have you been keeping up? How are the endowments doing now?

MATTHEW TUTTLE: Certainly not the same as they were, but they still follow a better investment philosophy than the average individual investor out there who still believes traditional asset allocation works. They’re still, by and large beating the market, and they’re certainly beating the average investor.

HANK COLEMAN: Is that why I should care as the average individual retail investor? Why should I care what the colleges are doing with their endowments? Can I do the same thing as an individual investor?

MATTHEW TUTTLE: Well, that's the thing – you can, and that's why you should care. You should care because the traditional approach, the traditional kind of asset allocation modern portfolio theory stuff does not work.

HANK COLEMAN: What do you mean? What parts of modern portfolio theory don't you think work?

MATTHEW TUTTLE: None of it. The whole idea that you should – I mean, riding the market up is good, but riding the market down really isn't. And, the problem is markets don't go up all the time, and markets…

HANK COLEMAN: Well, I was going to say, and you don't think markets are efficient either?

MATTHEW TUTTLE: No. Markets are not random, markets are not efficient because people trade in markets, and people have emotions and biases.

HANK COLEMAN: That behavioral finance aspect of it coming through.

MATTHEW TUTTLE: Exactly. So it's not like a coin flip. The fact that the market went up a hundred points yesterday does impact what the market's going to do today, versus – I could flip up a coin ten times and get heads ten times, I still have a 50-50 chance my next flip is going to be heads or tails. The market doesn't work that way.

HANK COLEMAN: So what are the types of investments that these college endowments are investing in?

MATTHEW TUTTLE: What they're doing is they're using alternatives to the traditional style boxes that individual investors are kind of stuck at.

HANK COLEMAN: So they’re not really doing the typical stocks and bonds, is that what you mean?

MATTHEW TUTTLE: Well, not typical stocks and bonds the way that most people are. Most people are saying, “All right, I need 30% large-cap value, so I’m going to find a manager who buys large-cap value stocks,” and that’s all they do. The problem is, if large-cap value’s down 40%, your large-cap value manager’s going to be down 40%.

So the endowments are using more flexible money managers who can say, “All right, you know what, I like large-cap value. You know what, now I don’t. I like small-cap growth.” Or, “I don’t like stocks at all; let’s go into bonds, let’s go into cash.”

People are trying to make money regardless of market direction versus people who are riding the market up and riding the market down.

HANK COLEMAN: And, us, individual retail investors, are more “pigeon-holing” ourselves into our traditional way of thinking, is that…?

MATTHEW TUTTLE: It’s not that we’re “pigeon-holing” ourselves into it, it’s Wall Street is “pigeon-holing” the individual investors into this way of thinking. It’s how they’re designed…

HANK COLEMAN: The financial machine.

MATTHEW TUTTLE: Yeah. It’s what people are taught to do, and after 2002 and then especially after 2008, I think more and more people, especially the ones we talked to are realizing, “You know what, there’s got to be a better way.”

HANK COLEMAN: You talk about it or you name it Endowment Portfolio Theory as opposed to Modern Portfolio Theory, what kind of shape’s Endowment Portfolio Theory, or it’s going anywhere and everywhere, is that…?

MATTHEW TUTTLE: It’s complete and total flexibility to go anywhere and everywhere to be in stocks when stocks make sense, to be in bonds when bonds make sense, to be in cash when cash make sense.

HANK COLEMAN: Timber forests.

MATTHEW TUTTLE: There’s certain things the individual investor can’t do, so you and I aren’t going to go out and buy Timberland, but there are other things that we can do and we can be investing with money managers who follow a flexible, dynamic approach.

HANK COLEMAN: And, you mentioned in your book how Harvard and Yale beat the market. You mentioned how – maybe we could do ETFs – you know, there’s a plethora of ETFs now that invest in enormous amount of different things. So maybe instead of us going to try and buy actual Timberland, maybe we are going and buying ETFs that are buying shares in the Timber stocks or shares in those kind of things. Is that an option?

MATTHEW TUTTLE: That’s certainly an option if you know what you’re doing.

HANK COLEMAN: That’s the long pole in the tent.

MATTHEW TUTTLE: Right. For the average investor, you’re better off fine being a money manager or money managers who follow a dynamic approach. For someone who knows what they’re doing, wants to construct their own portfolio, ETFs are awesome. I mean, ETFs are slowly but surely eroding mutual funds as the investment of choice.

HANK COLEMAN: That's a good point. I mean, maybe there's a day when – they're the norm and mutual funds aren't. Mutual funds are maybe the way of the dinosaur.

MATTHEW TUTTLE: I'm seeing that more and more. We're definitely seeing signs that ETFs are supplanting not only mutual funds, but also individual stocks and bonds where you're getting – and some of these endowments are doing it, where instead of buying a portfolio corporate bonds, they'll just go out and buy an ETF then tracks corporate bonds. It's much easier to do for them and for individuals.

HANK COLEMAN: And, easier to get the diversification from that.

MATTHEW TUTTLE: When you've got a billion dollars of corporate bonds, you can get diversification, but it takes a long time to build that portfolio up I can go out and buy the ishares LQB corporate bond ETF in about 5 seconds. So it's just easier. And, then when I want to sell, I can just sell.

HANK COLEMAN: We're talking with Matthew Tuttle, the author of "***How Harvard and Yale Beat the Market: What Individual Investors Can Learn from University Endowments to Help Them Prosper in an Uncertain Market***". Matthew again is a certified Financial Planner with the group the *Private Client Group, LLC*. And, he's also the President of the *Tuttle Wealth Management, LLC*. He's been interviewed on CNBC, CNN Financial, and is a frequent contributor to The Wall Street Journal, Forbes.com, SmartMoney, and Dow Jones. Be sure to check out Matthew on his website: **TuttleTactical.com**.

Endowments are building up that big large pool of capital, and then living off… so the colleges can live off the interests. Is that kind of the endowment plan – the game plan?

MATTHEW TUTTLE: Not necessarily living off the interests, and that's a good point you bring up because individual investors get stuck on interests. They're not trying to live off the interests because they're typically not buying bonds or things that generate interests, they understand that returns come from dividend they invest in capital gains. And, they don't care, they're agnostic as to where it comes from because it's all green.

So if I give you a 20-dollar bill, you're not going to ask me, "Well, you know Matt, is this from dividends, interests or capital gains, 20 dollars is 20 dollars.

HANK COLEMAN: Right.

MATTHEW TUTTLE: So individuals need to think about that too because we're entering a period where bonds are going to really stink, and people are focused on getting interests from bonds are going to have some real negative surprises that when they open up their statements over the next couple of months and couple of years.

HANK COLEMAN: Sure. I think bonds stink now, pretty much.

MATTHEW TUTTLE: Oh, they do. We don't own them at all.

HANK COLEMAN: Right. I don't either. What about taxes? The colleges have a wonderful tax, and their endowments have a wonderful tax favor – they're favored tax status. Can an individual investor kind of overcome the advantages that colleges get because of that tax status?

MATTHEW TUTTLE: For an individual, taxes by and large, are irrelevant. Focus on total return. If I make you 20% and you give 5% back in taxes, you still got 15. And, I’ve seen so many people get so focused on taxes that they miss the forest for the trees and end up losing a whole bunch of money, but they end up saving themselves taxes. Focus on total return; don’t focus on the tax.

HANK COLEMAN: That’s an interesting perspective. I like that. Not very many people come out and say that. So many people are so focused on taxes. That’s a great point.

MATTHEW TUTTLE: And, I understand that because, I mean, I hate paying taxes.

HANK COLEMAN: Sure. No one likes it.

MATTHEW TUTTLE: But, at the end of the day, it’s “What do you have in your pocket?” People focus on, “Well, I love my municipal bonds.” Yeah, but you’re only getting 2%, who cares if it’s tax-free? I’d rather earn 12% and pay 3 in taxes and I’d net 9. I mean, it makes sense to me.

HANK COLEMAN: Sure. You know, kind of sticking on that same theme that I liked when you talked about in the book, you talked about real returns – we talk a lot about real returns – but are we making the mistake comparing nominal returns and real returns. We don’t factor in inflation, we care that we’re making, like you said, 2% on the municipal bonds, but then inflation is eating away, eroding that 3%, so who really cares. I really liked how you talked about how we look at returns.

MATTHEW TUTTLE: Inflation is something you can’t control. It is what it is, but if you’re thinking you’re being safe by putting your money in something earning 1 or 2% – “I can’t lose,” – well, you know what, you are because in a couple of years, that money is not going to be worth the same thing it was worth before. So you’ve got to focus on making as much money as possible. And, that’s regardless of how old you are, regardless of what your risk tolerance is. The money is out there to be made, you might as well do it.

HANK COLEMAN: What about fees? You actually say in your book that you don’t mind fees, or fees aren’t so bad. Like, you don’t mind paying fees, How does that go…?

MATTHEW TUTTLE: I mean it’s, are you getting what you pay for? Your average, say mutual fund that is a what I would call a closet index who basically doesn’t deviate very much from, let’s say the S&P 500, but charges a 1% fee. That’s way too much. Or, the average investment adviser who comes up with this allocation for you and rebalances it every quarter and charges a percent for that. That’s way too much. But, give me a money manager who is dynamic, who can move money around, who can position you where when the market’s going up, you get most or all of that return, and when the market goes down, they get out before bad turns into really bad, and they protect you from the worst of the losses, I’ll pay for that. That’s worth it.

So, not looking at fees in a vacuum, but are you getting what you’re paying for. I mean, the best money manager on the planet is Renaissance Capital. And, last I looked, they were returning a 11% a year. So if I’m making 30% a year am I going to quibble about a fee? No.

HANK COLEMAN: How important is it for me to select the right team – that money manager? Is that the, above all else, get that one thing right.

MATTHEW TUTTLE: Well, either that or you've got to educate yourself to a point where you can do it. Either way – yeah, I mean that's critical because… I once heard somebody describe the universe of hedge funds – there's like a hundred thousand planes in the air, but only a hundred really good pilots and the rest are all accidents waiting to happen. So yeah, I mean that is critically important. You could come up with the best plan ever, find some guy who's just traditional asset allocation modern portfolio theory and…

HANK COLEMAN: Might as well have an index fund then.

MATTHEW TUTTLE: Might as well have an index fund.

HANK COLEMAN: Can I do it myself? Is it too much?

MATTHEW TUTTLE: It depends. You've got to be able to take your emotions out of the equation, and you've got to be passionate about it, you've got to be willing to spend the time. I mean, I manage money for individuals; I manage money for investment advisers all over the country. It is a full-time job, but I love it.

HANK COLEMAN: Yeah.

MATTHEW TUTTLE: I love what I do. I wouldn't do anything differently. If you're telling me, "Yeah, you know I'm not really that interested. I'm just going to dabble here and there." Then don't do it. I mean, you might get lucky for a month or two or three, but at some point you're going to do something stupid, and you're going to get your head handed to you.

HANK COLEMAN: That is the benefit of hiring out. They're professional, they do it for a living – that's all they do for a living. They live and breathe and watch, when the rest of us have the day jobs that we got to go back to. We can't always watch the markets and…

MATTHEW TUTTLE: Exactly. You've got to be… It used to be, way back, you didn't have to. Now things happen so quickly and move so quickly, you've got to be on top of it all the time.

HANK COLEMAN: We've got time for just one last question, and I wanted to ask you, why are we – individual investors, retail investors – so adverse to moving away from the traditional way of thinking from index funds or modern portfolio theory? Why are we so adverse?

MATTHEW TUTTLE: Well, because everything you're told, everything you read tells you that's what you need to do. But, you've got to understand who are the sponsors for what you're reading? People read Money Magazine, look at it as a gospel. Well, who are the biggest sponsors of Money Magazine? Vanguard, Fidelity…

HANK COLEMAN: Just look through the ads, right? Sure.

MATTHEW TUTTLE: All of that stuff, I mean…

HANK COLEMAN: That's a great point.

MATTHEW TUTTLE: And, that's every industry. I mean, bodybuilding is a real big one where you read muscle and fitness, and they talk about supplements – how you need them. And, then you look at all the ads, it's all supplement companies. It's the same thing with things like Money Magazine and all that. They want you to buy and hold these Vanguard and Fidelity Funds.

HANK COLEMAN: Sure. So it’s not a coincidence what the types of investments that they recommend, and the types of advertisers that they have.

MATTHEW TUTTLE: Exactly. Well, read the articles, look at who the advertisers are and you’d get it. They don’t have your best interest at heart, they’re in business of making money. I mean, I don’t blame them, but you’ve got to understand that as an individual investor.

HANK COLEMAN: That’s a great point. Well, thank you Matt, I appreciate it. The book is, “***How Harvard and Yale Beat the Market: What Individual Investors Can Learn from University Endowments to Help Them Prosper in an Uncertain Market***”. Thanks Matt, I appreciate your being on the show.

MATTHEW TUTTLE: Thanks for having me.

HANK COLEMAN: We’ve been talking with Matthew Tuttle who’s the author of “***How Harvard and Yale Beat the Market: What Individual Investors Can Learn from University Endowments to Help Them Prosper in an Uncertain Market***”. You can find a link to his book in the show notes from today’s episode on MoneyQandA.com. Be sure to follow me on Facebook: Facebook.com/MoneyQandA, and you can find me actually in two places on Twitter: @HankColeman and @MoneyQandA. Make sure you spell out that MoneyQandA, though. Until next time, thanks again for listening to the show. I really do appreciate it. Be sure to email me anytime with your comments or questions from today’s show or anything in general. If you know of a topic that you like me to talk about on the show in the future, drop me an email. Email me anytime: Hank@MoneyQandA.com. Thanks.

NARRATOR: Want to connect with Hank online? You can find him at: Facebook.com/MoneyQandA. On Twitter: @MoneyQandA or on his website MoneyQandA.com. Thanks for listening this week and don't forget to recommend this program to anyone you know who's thinking about their financial future.

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