

CREATIVE PLANNING GIVES BACK TO COMMUNITY

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06/16/2020

On last week's *Behind the Markets* podcast episode, we spoke with Peter Mallouk, CEO of Creative Planning, about how his firm has navigated the current pandemic and where he sees both the financial markets and the advisory business going forward. We also discussed the tremendous and generous support Creative Planning is providing to its community during this extraordinary time.

Mallouk wrote a book called *The 5 Mistakes Every Investor Makes and How to Avoid Them*. Unfortunately, Mallouk sees investors making textbook mistakes again in March as they panic at market bottoms and lower their equity exposure, resulting in record outflows from equities throughout the industry.

Another common mistake is gambling on very small stocks. One example that is popular in social media today are the 'Robinhood traders' buying bankrupt companies. Mallouk sees these same [bear market](#) behaviors over and over, much like how every horror movie starts and ends the same way.

Be Thrilled with Market [Volatility](#)

Creative Planning counsels that without the market volatility we've experienced this year, so much money would pile into stocks that the higher returns they typically offer over less volatile assets would not be available. This is what creates the equity premium that investors should embrace.

A Lasting Legacy of this Crisis: Low Bond [Yields](#)

Every bear market leaves a legacy that influences market dynamics for a long time. Mallouk expects low bond yields and low expected returns for bonds will be that factor today.

While historically many investors were able to achieve long-term objectives with 50/50 stock and bond mixes, or even 60/40 portfolio allocations, Mallouk thinks those now expecting 7%–8% returns with a 70/30 stock/bond allocation will be disappointed. Those returns no longer appear achievable.

There is now a widening gap between the expected returns of stocks and bonds, and this will be a key asset allocation challenge looking ahead.

Creative Planning emphasizes high-[quality](#) bonds and sees less motivation to go out into the [credit](#) spectrum for additional yield.

Strategies for Today and the Long Run

Mallouk's team employs a disciplined rebalance strategy that adds to exposures in sectors and size cuts that have been the most beaten down. He sees such an opportunity today in [small caps](#), which often lead the markets during recoveries. While technology appears invincible today after such strong performance, Mallouk warns these issues appear that way, until they aren't.

Giving Back to the Community

In order to best take care of their clients, Creative Planning told all their employees their employment and salaries were guaranteed in the current pandemic situation, whether it takes five months or five years. The firm is also providing ways to help their employees de-stress.

Kansas City was one of first cities to shutdown public schools, and Creative Planning donated \$1 million to provide one million meals for school children now being virtually educated from home.

Mallouk indicated that Creative Planning further donated \$12 million to help some of the greatest challenges our society is facing today—which is education, mentorship, and scholarships that help people get good jobs. Its donation will help with basic security, food, and shelter as well as further job training and scholarships. Creative Planning is currently paying

for education for 121 students and giving each of them a mentor to help them through college.

While there is much political debate on how to solve these challenges, Mallouk emphasizes there is no debate on how we can all work on solutions to break the inequality cycle.

The groups that Creative is working with are [Feeding America](#) and [Give Something Back](#). They also continue to work on a financial literacy initiative.

This was a great conversation with one of the leading independent wealth management firms that clearly has even larger aspirations. You can listen to the full conversation below.

Behind the Markets on Wharton Business Radio · Behind The Markets Podcast: Peter Mallouk

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DEFINITIONS

Bear market : A sustained downturn in market prices, increasing the chances of negative portfolio returns.

Volatility : A measure of the dispersion of actual returns around a particular average level. .

Yield : The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

Quality : Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets, operating profitability as well as others. This term is also related to the Quality Factor, which associates these stock characteristics with excess returns vs the market over time.

Credit : A contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some date in the future.

Small caps : new or relatively young companies that typically have a market capitalization between \$200 million to \$2 billion.