



Raymond A. Mason School of Business

WILLIAM & MARY

LEADERSHIP & BUSINESS PODCAST

EPISODE 107: DAVID MUSTO – TRANSFORMING THE WORLD OF INVESTING

Ken White

From the College of William & Mary in Williamsburg, Virginia. This is Leadership & Business. The podcast that brings you the latest and best thinking from today's business leaders from across the world. We share the strategies, tactics, and information that can make you a more effective leader, communicator, and professional. I'm your host Ken White. Thanks for listening. It seems like every business and industry is experiencing disruption today. Much of the change is driven by technology and data. One field that's being transformed is the world of professional financial planning and investment management. Consumers can now count on technology to guide them in terms of their retirement savings like never before. As a result, the role of the financial advisor is changing. David Musto is President of Ascensus. They provide resources for organizations and companies who help their employees save for retirement. Musto has over 25 years of experience in the retirement, investment, and insurance industries. He joins us on the podcast today to discuss the exciting changes taking place in the investment management field. Changes driven by technology and data. Here's our conversation with David Musto, President of Ascensus.

Ken White

David, thank you for taking the time to join us, and welcome back to campus.

David Musto

Thank you excited to be here.

Ken White

And you met with students yesterday. How was that experience?

David Musto

It was a wonderful experience to hear what's on students minds and what they're learning and what's of interest to them. We had a really nice conversation about how technology and big data are starting to influence the world of financial planning and advice, and investment management.

Ken White

And that's a topic you brought to them. Were they expecting that? To me that that sounded incredibly interesting. I wouldn't have thought someone would talk about that. I assume they were pretty interested.

David Musto

Yeah, I think they were expecting it because it was in the write-up. What I came to appreciate through the conversation is that you know, I think for students in class today, there isn't as much of an appreciation for how quickly technology and data is actually transforming the world of professional investing and the world of investment advice.

Ken White

How much has it changed since you got into the field?

David Musto

A lot.

Ken White

Was it even there? Did we really even talk much about that?

David Musto

Well, so you know, in the early days, you know, technology was there, and if you think about the experience for the, you know, the typical American saver, maybe they had a financial planner or an advisor, and that advisor was compensated primarily based on commissions buying and selling stocks and bonds, and many of the conversations around you know how much a person should save and how they should be invested or how they might be or how much they might be expecting to spend in retirement were really based on simple rules of thumb.

Ken White

Yeah.

David Musto

Right. Save 10 percent of everything you make through a lifetime and spend no more than 4 percent of your accumulated assets, and you'll be okay. And you know, the world's very different today and what we see is that many of the things that human beings in the form of advisors and planners would have delivered really have been taken over by technology and to the betterment of the consumer. So you know, today, a financial advisor isn't a stock selector, bond selector, or portfolio manager. Many of those activities have really been consumed by home offices, you know, basically institutionalized for advisors and

planners with algorithmic models and technology that are supporting asset allocation approaches managed accounts as an example where institutions are taking responsibility for an individual's portfolios, you know that that type of a capability was only available to ultra-high net worth individuals 20 years ago and today you can go online set up an account with either a very well-known or maybe little known institution and have them take complete control of your portfolio primarily with a computer.

Ken White

Yeah.

David Musto

So the role of, you know, how the advisor, the planner, and the investment professional is actually executing their job and also really putting out there their value proposition is changing.

Ken White

Yeah, what did they do now?

David Musto

Yeah. So you know I'll shift over to investment management as an example. You know back in the day analysts research teams would comb over financial reports looking for information that would help them assess the long-term growth potential of a stock or the or the credit worthiness of a bond. And they do that based on publicly available disclosed information, typically on paper. You know, today, big data is being used obviously to manage and simplify, you know, all that legwork that would have otherwise been required to be done by an individual but going even further. So you know, would it surprise you to know that certain investment teams are using satellite data that now observe the parking lots of big box retail stores to determine how many cars are in the parking lot at various points in the year? Which of those cars are luxury automobiles versus Chevys and Fords? How many tractor-trailers are showing up to deliver inventory?

Ken White

Yes.

David Musto

And using that information and data hopefully as a way of gaining some small information advantage that can be used to create alpha, right? In researching and ultimately buying and selling certain securities. That's a very different world.

Ken White
It's amazing.

David Musto
Yeah.

Ken White
But we know what we can do today; the technology is absolutely fantastic, isn't it?

David Musto
It is.

Ken White
So as an advisor and as a planner, how has that role changed as you said, that was a person who would do all the legwork now. The legwork, in some respects, is being done for them. So is it more of a relationship kind of role?

David Musto
I think you're spot on. So you know, the days of the broker or the advisor as trader shifted into the advisor or planner as asset allocator, and now as those functions become more consumed by technology and institutional process really, the advisor and the financial planner is becoming more of a life coach.

Ken White
Yeah.

David Musto
And really sort of a human element for individuals that want to have a comforting, trusted voice around the decisions that they're making.

Ken White
Right.

David Musto
And although the advisor may not be the one individually selecting or recommending a specific stock or security. It's the advisor that can help put that selection in perspective for the individual.

Ken White

Right.

David Musto

There's still a range of activities and behaviors, and I'm maybe, you know, sort of thinking about the extreme version of where things are headed. But I don't think it'll be surprising that within the next 10 to 15 years, we'll see increasingly less and less activity that in the past had been delivered by those individuals still being the same.

Ken White

Is there an industry or job that's not being disrupted today right? I mean so it makes total sense. What about the results though as we, as we depend on technology a little bit more? Are people seeing better results?

David Musto

I think you know there's various studies out there. If you look at investment return. But the other, I'd say, interesting trend is a shift from focusing on performance to really thinking about outcomes for individuals. So I posed this question to the students in our session yesterday. If I gave you the choice of as the young person that you are either outperforming the market 3 to 4 percent each year for the rest of your life or being able to guarantee you that you would receive 100 percent of the average of your last five years earnings what would you choose? And very quickly, the hands go up and say, oh, I'm going to take the compounding of interest, and I'm going to take in performance, and I'll take the three to four percent. But that sort of ignores ultimately the goal of what you're trying to achieve. And it also ignores a whole bunch of information and data that increasingly is more readily available and understood by individuals.

Ken White

Right.

David Musto

How long might I live? With the advent, you know the advances that are happening in genetics and DNA. Who's to say that 20 years from now people won't have a better handle on what their life expectancy might be or what expected expenses individuals might have in the later years of retirement? There's already a lot of data analysis been done in academic work that suggests there are five or six health conditions that are extremely high-level predictors of healthcare expense in the last 10 to 15 years of someone's life.

Ken White

Right.

David Musto

So you know, if I want to create a portfolio, what are the things I'd like to know? What's the terminal date the portfolio I'd like to? I know it sounds a little macob to talk about that. You know how what is the terminal date of the portfolio. What are my draw-down needs right throughout various periods of that portfolio and its performance? So you go back to your question there is a shift in mindset from performance to outcomes. And it's also influencing the way people think about constructing investment products and ultimately managing money to specific goals and objectives.

Ken White

We'll continue our conversation with David Musto in just a minute. Leadership & Business is brought to you by the Center for Corporate Education at the College of William & Mary's Raymond A. Mason School of Business. As we record today, the Center for Corporate Education is hosting its certificate in business management program. Thirty-five professionals representing a variety of organizations and fields are here from across the country for the five-day program designed for the working professional who wants a better understanding of business. Each day is devoted to one business-related topic, including communication, operational effectiveness, strategy, managerial accounting, and leadership. The five core topics taught in our highly ranked MBA program. The certificate in business management program will be offered again in the fall. During the week of October 22nd, if you'd like more information on the program, visit our website at wmleadership.com. Now back to our conversation with the President of Ascensus, David Musto.

Ken White

Over the course of your career, have you seen people pay more attention to retirement, less the same? How are people doing?

David Musto

Yeah. So you know, the amount of attention people pay to their financial matters broadly seems to be very correlated with life events. If I offered a class today to students to come and learn everything you ever needed to or wanted to learn about financing a home, financing a car, managing debt, you know, planning for retirement, planning for your health care savings, you might get some takers, and they'd take really good notes, but they would totally disengage until the day where they had a child, they had a parent that became ill, they got married and wanted to buy a house. So you know what we see, and all the work that's out there is, people tend to engage in their financial lives when it matters and when life events dictate. So you know, a lot of the focus on retirement really

happens much later in someone's life. It's hard to get younger people to engage in the importance of saving, and it's one of the reasons we're also seeing a big move in the retirement industry to defaults and actually taking more responsibility and accountability for someone's savings behavior as a default and letting them opt out. So in many defined contribution plans today, an individual joining a institution or a company will be automatically defaulted into the plan.

Ken White

Right.

David Musto

Maybe at a rate of 3 percent deferrals or contributions into the plan, and every year those deferrals will be increased by 1 percent until the individual reaches 10 percent. Now they can always opt-out.

Ken White

Right.

David Musto

But we've put them on a path to begin to address a really important need early in their careers that otherwise very few people would have engaged in. They wouldn't have wanted to have the conversation, and they would have assumed that they didn't need to save a lot today because retirement is still 30, 40 45 years out.

Ken White

That's outstanding. And if you don't see it, you don't miss it sort of a, you know, a right if it's going right into the account. Fantastic. What about college savings because your company does a lot in the 529 space? How are people how are people doing overall in terms? Are they setting up accounts? Are they using them?

David Musto

So, unfortunately, a lot of people are setting up college savings accounts. But unfortunately, nowhere near enough right relative to the rising cost of education and typically also people starting later than they might otherwise need to in order to really get the benefit of that tax-deferred savings that you can be advantaged by through a 529 account. Now listen, it's understandable why that happens. You know, people have needs around their disposable income. Do I put the and this is a really interesting area also that technology is helping to solve and you know computer programs helping to address where do if I have a set amount of disposable income. Where do I put the next dollar? Do I contribute to a 401k account? Do I put it into a IRA account? Do I put it into a health

savings account which is, by the way, total? You know, triple tax-deferred, and you know no tax ever right on those capital gains and earnings through the period. Or do I put it into an education account for my child or? And those are tough, difficult choices, and unfortunately, many people don't have enough disposable income to take full advantage of all of those different opportunities. So you know, back to your questions about the financial advisor and the planner, helping individuals think about their life and the cycles through their life and when and how they might want to be saving for different purposes and objectives is very important.

Ken White

Yeah, it goes back to your term of life coach. It makes total sense.

David Musto

Yeah.

Ken White

Yeah. How interesting. Anything on the negative side or anything creating hurdles with the explosion of technology and artificial intelligence and big data in terms of investments and savings.

David Musto

Yeah. So I'd say privacy appropriately and business ethics which I know your students take very seriously and study right as a field, is increasingly important. The technology is moving faster than the thinking around these issues and certainly moving faster than the pace of regulation or rules that are protecting this information and data how it's used and applied. The other the other force that works against many of the right actions is human behavior. So I know your students are probably at least familiar with the concept of behavioral finance. That human beings tend to anchor right on certain principles that may or may not be academically appropriate or tend to have hindsight bias and think that things that happened in the past will happen again in the way that they happened in the past or risk aversion where human beings, in general, feel more pain from loss than they do joy from upside return, which influences the way people make decisions and choices. Julie Agnew one of, one of the esteemed professors here at William & Mary, has done a lot of work on choice architecture. How do you present options to an individual that may influence the choices that they make? You know, if I tell you, you know, you can have a car that is really fast but potentially dangerous or really slow and ineffective in the way that it gets you to where you want to go or something that's really warm and fuzzy right in between. Most people are going to take in between if I present those choices in a different way, really fast car that is going to make you attractive to the opposite sex and, you know, really pump up your ego and your self-esteem, or a very inexpensive cheap vehicle that is less attractive to the world around you. Right. You may make a different

choice. So it's really an interesting field. And the combination of behavioral finance and technology and data are really coming together in the way that is influencing how people are making decisions, hopefully, better decisions in the future.

Ken White

Is it important for people to understand their behavior and understand where they're coming from and how that may help or hinder their investments?

David Musto

Yeah, you know, we've found it in our industry very helpful to talk about those principles. And when you talk about those principles with most people, it immediately the light bulb goes off, and they say, yeah, I get it right that I've done that. That's exactly the way I think. That's exactly the way I behave. And it doesn't mean that people are going to overnight behave differently but to have that level of self-awareness and to realize that you might be selling at the wrong time right. Selling at the low and buying at the high, which is right the most common right of these behavioral traits that are shared by so many of us. Just to be aware of that and try and fight you know your own instincts can be very beneficial.

Ken White

Any advice? We have a number of students who listen to the podcast we hear from them on our email exchanges. Any advice for a student or a young professional who might want to get into the field?

David Musto

Yeah, I think it's really important to spend some time focused on analytics. I know William & Mary has a business analytics data analytics rather major and some concentrations. I can't overstate the importance of you know whether you want to design investment products, manage investments directly, or promote or sell investment products, or be responsible for companies that do all those things. Understanding how big data is going to influence this industry and understanding how technology is changing and influencing the industry is going to be very important. And you know that that's not, you know, a typical academic pursuit, right? You either major in finance or you major in computer science, and doesn't mean you need to develop expertise in computer programming, but when you look at, I'll use an example, BlackRock, you know, one of the largest, if not the largest money manager globally today increasing dramatically its investment in investing technologies and reducing to some significant degree the number of people that are performing certain functions in that business that they know over the next several decades will ultimately be taken on by technology. That's a sea change.

Ken White

Yes, it is.

David Musto

And for the students coming out of school today that are preparing for a career in the field, you know, being closer to understanding the interactivity between technology data and investing is really important.

Ken White

And any advice for saving for young people as well?

David Musto

Start now. Do as much as you can. There was, you know, I know I just said don't follow rules of thumb and don't anchor on rules of thumb, but it turns out that save 10 percent of everything you make for your entire life, and you're going to be okay rings pretty true. I think some recent academic stuff research that's been done probably pegs the number for young people today somewhere around 12 to 15 percent because more responsibility is now being taken on by individuals versus institutions. So pension plans. You know, the old days of 10 percent was in a world of I was getting a pension after working for a company for 30 years, was in a world of social security continuing to be around in the form that it was that world's changed. It's changed dramatically so so for the young person that is going to be increasingly self-reliant on their savings and not looking for an institution, a company, a government to support them in their later years. The earlier you can start. Was it Einstein who spoke to talked about the magic compounding?

Ken White

That's our conversation with David Musto. And that's our podcast for this week. Leadership & Business is brought to you by the Center for Corporate Education at the College of William & Mary's Raymond A. Mason School of Business. The Center for Corporate Education can help you, and your organization meet and exceed your goals with business and leadership development programs that fit your needs and get results. If you're interested in learning more, visit our website at wmleadership.com. Also if you have any feedback or suggestions pertaining to the podcast we'd love to hear from you email us at podcast.wm.edu. Thanks to our guest this week David Musto and thanks to you for joining us. I'm Ken White. Until next time have a safe, happy, and productive week.