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**KKOL 1300am, Saturdays 8AM**  
**HOSTED BY JASON PARKER**



**035 Retirement Paycheck with Jason Parker & Erik Ramsey**

Announcer: Welcome back, America, to Sound Retirement Radio, where we bring you concepts, ideas and strategies, designed to help you achieve clarity, confidence and freedom as you prepare for and transition through retirement.

Now, here is your host, Jason Parker.

Jason: Seattle, Tacoma, Olympia, Gig Harbor and all the good people here in Kitsap County, thank you so much for tuning in to another round of Sound Retirement Radio. I have Erik Ramsey in the studio with me this morning.

Erik: Good morning.

Jason: Welcome back, Erik.

Erik: It's good to be here.

Jason: Quite a Super Bowl, huh? Let's not talk about it. It just makes me so upset every time. It was ...

Erik: So close.

Jason: Gosh, what a great game though.

Erik: It was a good game. I have to hand it to him. Both sides tried so hard and it was such ... It was a much more exciting game to watch than last time.

Jason: I love how Russell Wilson responded at the end. They said they had one more play than we did. That was all it came down to. It came down to just one play. Russell Wilson is quite the leader. I have to say I'm really impressed with him. Winning or losing, on the field or off the field, what an awesome representative for the Seattle community.

Erik: It's true. It's true. I just like there ... I just like went to bed and thought since then, like, "Why didn't we run? We could have run it. We have the best runner in the world." As I was thinking about that

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though, it's so easy to be the armchair quarterback after the fact say, we should have, would have, could have done this, that or the other thing.

Jason: Right.

Erik: I mean that's what everybody wants to do, but when you're actually in the heat of the moment, you are the one that's calling the shots. As financial advisers, we know what this is like.

Jason: Yeah.

Erik: I mean people expect us to be the quarterback of their financial life which means we got to call the shots.

Jason: It's true.

Erik: Sometimes we get it right and sometimes we're not as right as we'd like to be, but the reality is we take responsibility. It's just that I really ... I would prefer not to feel humble or humility in any way when it comes to the way I watch football. Let's just be honest, right?

Jason: Come on, man. These guys are awesome. They're doing a great job.

Erik: They are and I could never do it like watching as these guys just get the way they do and get up and keep running. I'm like, no, I would fold and just lay there on the ground for a bit and say, "You can play around me."

Jason: Yeah.

Erik: I could never do what they do. I could never take that pressure.

Jason: Play their hearts out. We are proud of the Seahawks.

Erik: It's true.

Jason: Even when they lose, we're proud of them, great team.

Erik: Yeah.

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Jason: I've got a joke for us this morning.

Erik: I'm so glad.

Jason: Here it is. Why didn't Noah do more fishing off of the ark?

Erik: I don't know.

Jason: He only had two worms. I love these jokes. Erik, what are you going to talk to us about this morning before we get started? Wait, I need to let our listeners know, this is episode 308 and the primary topic is going to be tactical investment management. If you're going to be listening online or you can't catch the whole thing, you can listen at [soundretirementradio.com](http://soundretirementradio.com), [soundretirementplanning.com](http://soundretirementplanning.com). Now, Erik.

Erik: All right.

Jason: Take us away. Take it away.

Erik: We want to like try to integrate Christian values with financial wisdom and always when people think about this, they think about tithing and giving to the poor which is totally valuable but I want to set up more of a base first from my philosophical, theological perspective, and only then do I want to deal with tithing and that stuff, the more practical issues.

Last week, we talked about trust and I want to continue that. We said there is some virtues that just cannot be done in comfort. You can't have patience or courage and comfort. It makes no sense. Those things only come into play when life is tough. I want to talk about trust but first I want to lay a bit more of a foundation. There's a wonderful Latin term called "sine qua non", and if you use that in conversation like sine qua non, you sound very smart. At least I'm hoping I do. As my voice, sine qua non.

Jason: Yeah. I like it. I don't even know if I can say that.

Erik: Okay, it's great, here we go. What it means is basically without which not. If you have a PB&J, like if you think of a PB&J and everybody ought to occasionally because it's like the ground base of the

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American society, the PB&J. There are three elements that are sine qua non to the PB&J. Can you guess what they might be?

Jason: Peanut butter.

Erik: Very good.

Jason: Jelly.

Erik: Right.

Jason: Piece of bread.

Erik: You really need bread. I mean you cannot really have a peanut ... PB&J without PB or J.

Jason: Hey, since we're on the topic of peanut butter and jelly and I know this is kind of probably breaking your train of thought, but if you're making them and you made a mistake making that sandwich, would you prefer more peanut butter or more jelly, which would you rather err on the side of?

Erik: I think it comes down perfectly to the ratio. You got to get the ratio.

Jason: Which ratio, I mean because sometimes here's my thing.

Erik: What we're going to err.

Jason: Yeah. Sometimes because you put too much jelly and then it just, I don't know, it's not ... It doesn't feel right, and then too much peanut butter and not enough jelly.

Erik: Then it sticks to your mouth like crazy.

Jason: Yeah. If I had to err for me personally, I would probably say I'd rather have too much peanut butter than too much jelly.

Erik: I think I'm the opposite.

Jason: Is that right?

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Erik: I love jelly. I love jelly. I would just eat it straight. I put it on my ice cream. I love J. Got to be honest.

Jason: All right. Anyways, I'm sorry I broke your train of thought. This is going to be a whole episode about ... Episode 038, peanut butter and jellies.

Erik: Yeah. This is what happens, two ADD guys you hand the microphones, what happens? Squirrel. Yeah. These things are PB&J and bread, they're just essential to the PB&J. You can't have a PB&J without one of those elements. In the same way, I believe that trust is sine qua non to Christianity. If you don't have trust, then you actually don't have Christianity. You might be a very religious person or a good person or a creative and interesting person but I don't think you can actually be a Christian the way Paul defines it. You're just a good person and you're not actually Christian.

Here's how we get to this. If you look at Romans chapter 15 and 16, Paul says that Abraham was kind of the proto-Christian, the proto-godly man. He was the man that had what God wanted, what he needed in a person to start his plan to save humanity.

When we think about what a Christian is or how our Christian walk begins, most people think that it involves confessing sin, repenting sin and hoping to go to heaven. At least that's ... That for me has always kind of been at the base, like it starts when you say, "I'm sorry for my sins." If you look at the life of Abraham in Genesis, it didn't start there really. What it starts with is him having a conversation with God and he says, "I don't actually want anything else. You can't actually give me anything else, God, you can't give me more money in a meaningful way. I have enough and you can't give me more fame, it doesn't matter because none of these things matter if I don't have a child. I don't want anymore. I want a kid and nothing else seems to matter without that."

God says, "You know what, go outside, look at the stars, and if you can count them then maybe you'll be able to count your ancestors, your descendants, your offspring." Yeah. He says, "I'm going to give you that son and I'm going to give you more offspring than you can imagine." Then the bible just simply says "Abraham believed him and it was credit to him as righteousness."

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Basically at that point he is now a righteous man. It's what the bible says, and Paul makes a lot of this. He says at that moment when he believed God, he was righteous, he was in, he was what God wanted him to be. There's no mention of going to heaven or repenting for sin, all it is, is Abraham said, "Here is my greatest need. This deep ache inside and I give it to you and I'm just going to trust your promise to make it right, to bring something about."

It's that trust that is sine qua non to being who God wants us to be. Without it we've got nothing. Taking this deep ache and saying, "God, I'm so scared or I'm so lonely or I'm so confused. Here it is, I'm going to trust you with it." Then Abraham had to wait, probably 20 years, 20 years of that heart wrenching ache that we read about. I'm sure some of our listeners and you and I have felt it in different ways like that. I am not complete. I am not whole and I'm just going to have to wait and trust that God will make it right. Abraham had to do that, and then one day, it was over. There was laughter in his house again as he had that baby Isaac.

That righteousness that is the sine qua non to who God wants us to be is fundamentally trust and trusting in the bad times. Twenty years he had to wait before that first child. Imagine all of the trust and all the questioning that had to have been happening during that period of time.

Jason: Exactly.

Erik: I'm not sure if you've ever read the "Screwtape Letters" by C.S. Lewis, one of the most incredible books. It's written as though it's a dialogue between two demons trying to tempt a man and the demon says, "You know what, the most wonderful thing we can do is get a man to quit trusting, to give up on God 10 minutes before God comes through, to have Abraham bail on his wife the week before she would have become pregnant, to have Joseph bail on his life of integrity the night before Pharaoh calls him up to lead the country."

Jason: Well, that's great. Yeah. That's really great.

Erik: The leper just give up on hope the day before Jesus comes through his village. That's what the enemy would want because to grab that



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opportunity of doubt in the season that God is doing something, setting something up and trust is so needed.

Jason: The thing that I've learned personally, Erik, is that when you trust, when you really trust, you start to see things differently than you would otherwise, and that's what's so amazing and fun that's a lot ... There's a lot of people probably listening to our show right now that don't have a faith in God or don't believe and so they're missing out on this whole other experience, it's really very cool.

Erik: I think so. I mean I've met some amazing non-believers that I deeply respect and yet part of me says, "Man, I can't imagine that life. I cannot." There is something so rich in every ...

Jason: Beautiful and poetic and mystical and ...

Erik: Yeah.

Jason: ... life. Fulfilling, yeah, it's a ... It really is a wonderful, wonderful gift and to be able to see sometimes what other people can't see just because you have trust as a foundation.

Erik: Yeah.

Jason: Yeah. That's awesome.

Erik: Well, this time of longing or pain might be far more extended than we hope or than we wanted. It will come to an end. It will come to a conclusion at some point.

Jason: You told a great story before we got started about ... Well, a couple of great stories actually, personal story about trust and then also a story about a little church in China and I'm just realizing that we're going to probably have to go to a break here in just a minute but I think it would probably be good to maybe try to get one of those stories in, right, when we get back from break and we'll see if we can talk a little bit more about trust as we enter into episode 038 in tactical investment money management. I'm Jason Parker. I've got Erik Ramsey in the studio with me. Erik, thank you for that message.

Erik: My pleasure.

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Jason: We'll be right back after this. Seattle, Tacoma, Olympia, Gig Harbor, all the good people here in Kitsap County, welcome back to another round of Sound Retirement Radio. I'm your host, Jason Parker. I've got Erik Ramsey in the studio with me. This morning we are on episode 038.

Erik: That's right.

Jason: We're going to be talking about tactical investment management, but Erik started the program off with the topic of trust, which is awesome. Erik, you told a couple of stories. Let's just maybe share one of those.

Erik: My parents were and still are missionaries in South Africa. I grew up in South Africa and when you grew up in those circles, you hear stories of the great missionaries, the ones that go in some place and just change the culture for the better where there's like crime and horror and nastiness and they go in with the love of Jesus and everything suddenly becomes better. Then you look around with the other people that you're working with and you just don't see that and it can be very discouraging.

One of the most incredible stories was of a missionary family that went to China, well, quite awhile ago, I believe, and I have to check my facts on this, but husband, wife and a child. They went to China and they battled and they worked hard and they shared their lives and they gave everything they could never seeming to make any difference in anybody's life. There was no great revival. Villages were not changed. The government did not turn around, it was hard. Then their child died, which was gut wrenching and horrible but they stuck it out and they stayed there like saying, "God, we believe that you want us here, in fact we know that even though nothing seems to be happening with our sacrifice."

Then the wife died and the man just carried on saying, "I think this is what you want and the pain is unbelievable and I'm not accomplishing anything." Then finally after many years and maybe like one or two converts had come around, he died. The whole family was buried in China having seen almost nothing accomplished from their lives.

Jason: They trust, trust, trust.



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Erik: Trust.

Jason: They keep working everyday giving everything of themselves only to never see this big ...

Erik: Yeah. Just nothing seem to come of it, nothing that anybody would write about. Then years later, during the communist time, and even now, China is quite hostile to organized Christianity, a church had begun from that tiny seed and it wasn't ... It was still struggling and the government said, "No, you cannot have a church unless it has been previously authorized by the government." That was a real problem. Then somebody came and saw the headstones of the tiny piece of land these missionaries have bought and on the headstones had their name and their church, the Assemblies of God. They said, "Look, they're Assemblies of God. That is the church name. This is church ground and it has been sanctioned by the government."

From that tiny regal technicality and the tiny, tiny seed planted, they were able to basically gain a foothold in that nation that had been so hostile to Christianity. The fact is, Christianity is growing faster in China than anywhere else and whether we like it or not, China is going to be probably if not one of the, the, it will be one of the biggest players in the next century in terms of the market in the world and culture and their Christianity is growing faster than anything else. I really believe that Jesus' message is the best hope their world has of finding peace and joy and meaning.

Jason: Yeah.

Erik: It's because of little footholds like these that seem to be so meaningless at the time.

Jason: So meaningless at the time but trust, they continued to trust and even it wasn't in necessarily their lifetime that they saw it all come to play. Yeah, that's awesome. That's awesome. All right, so let's transition here into ...

Erik: Into cold finances.

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Jason: Yeah. Let's talk about investing. This is great because this is probably more now than in the last five years. Erik, people have a real sense of uncertainty about how they should be investing their money.

Erik: Right.

Jason: Do they buy bonds in a zero interest rate environment?

Erik: Risky.

Jason: Do they buy stocks at a time when the stock markets trade in evaluations that we haven't seen happen more than two or three times in the last 130 years.

Erik: It very well might be an over bought stock market.

Jason: Maybe so. There's a lot of volatility, a lot of questions about where do we go from here and at the same time, we have a lot of people that want to transition into retirement. In my book, Sound Retirement Planning, I talk about two different really fundamental ways that I think you can invest intelligently in the market. One is what I call strategic asset allocation and the other one is what I call a tactical money management.

Today, in today's program, we're going to be bringing on a guest to go into more detail about tactical money management but right now what I thought we could do is just set the stage. How do we get there? How do we use tactical and strategic and ...

Erik: Suppose somebody wants to learn more of what you mean by tactical and strategic, is there any way that they could get their hands on this book? How would they do that, Jason?

Jason: That's a great starting point. Amazon is probably the easiest place. They deliver it to your door. Probably it won't be too long you'll have a little drone just dropping it off right on your front porch.

Erik: I'm honestly a little excited about that.

Jason: It's available as an e-book and Kindle and the iPad. You can buy it anywhere and so I've got a whole chapter on tactical and strategic. Before we get in to tactical and strategic, I want to set the stage for

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helping people understand where this comes into play. It's not just a matter of using tactical and strategic and saying, okay, everything works fine. Now, we were using active and passive investing in one

portfolio. Like we are always preaching, you have to solve for cash flow first and the last thing you want to be doing is pulling money out of a portfolio that's falling in value. The solution to that is ...

Erik: You got to diversify your timeline. You've got to ... If you have money in the stock market, you need to give it time to grow and do its thing before you pull it out. You have to find some way to let that money sit there untouched for a while and you call that diversifying across your timeline.

Jason: Yeah. Time is the cure to the volatility of the stock market. A lot of people when they diversify their portfolio, they think of it as, how much do I have in stocks? How much do I have in bonds? How much do I have in mutual funds or ETFs, and that's their form of diversification. I like to say that diversification is actually a two-step process. First, you diversify your time horizon, when you're going to need the money. Then you use the best tool to accomplish whatever goal it is you're trying to accomplish.

To create a visual in people's mind, there's a lot of different ways you can create a visual image. Some people will use the phrase buckets or bucketing. They'll say, have your short term bucket, your moderate term bucket, your long term bucket. Other times people call this laddering. You can think of a small ladder, a medium ladder and a longer ladder. We call it time segment and diversification or ... There's a lot of different phrases that you can attach to this concept.

Erik: It's the same concept though. It just having a little bit to use for a little while and it's very safe and then we leave the money that's at risk for a later in time.

Jason: Yeah. Pension fund managers will say match your assets to your liabilities so you don't ... As a pension fund manager, the last thing you want to be doing is taking very aggressive long term positions with money that you need in the short term if you're having to create cash flow for people that are depending on that pension. It's the same thing for individuals. We want them to know that first of all, yes, tactical and

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strategic makes a lot of sense as long as you have enough time on your side to make that work and ...

Erik: Sorry, tactical and strategic, that's a way to manage stocks, right?

Jason: Yeah, or just manage risk in the stock market. I mean that's using, you can use both bonds and stocks within tactical and strategic. In my book and just ... Sometimes when we start speaking our financial adviser language I think we lose a lot of people. They are like, tactical and strategic, what's the difference?

The way that I like to think about this, Erik, is strategic asset allocation is built on modern portfolio theory, efficient market hypothesis. There's a lot of academic research that says nobody can out pick the next guy on which stock is the best to own, so instead you broadly diversify using asset classes and that's kind of a ...

Maybe if we have time at the end of this program, we'll get more into strategic asset allocation. I call it the science of investing because a lot of different people from walks of life have won the Noble Prize for modern portfolio theory and efficient market hypothesis and these types of things that we build the foundation of strategic asset allocation.

The other way that I think you can invest intelligently in the market is more of a tactical approach. Tactical in my book I refer to this as the art of investing. Tactical means you don't just buy, hold, and hope that everything is going to work out okay. You take a more active approach to managing volatility, managing risk.

Erik: Yeah. Each of these basically by having these two approaches you can diversify your holdings. It's like having eggs and more and more baskets and so you have like more diversity in what you own.

Jason: I think that's a really good point. Some ... Depending on who you talk to, some people only believe in strategic asset allocation, modern portfolio theory, keep your fees as low as possible and just broadly diversify across asset classes and sectors across the entire globe. Some people think that that's the only way to do it. They kind of drink the modern portfolio theory Kool-Aid.

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Other people, depending, on what side of the desk you sit on, other people think tactical money management is the only way. Active money management that active money managers can bring access return and also help reduce volatility especially in the more volatile

times. Those folks on the active camp, thus they say this ... It's the only way to manage money and it's the only way they would manage their money.

At our firm, I like to say I'd rather be right 50% of the time than wrong 100% at a time, right? We like to use both tactical and strategic in one portfolio to help people manage volatility. The key to this though is to make sure with tactical and strategic that we have enough time because even though we're actively managing the risk, it does not mean that we're going to always be to avoid the downside. Sometimes we don't get it right.

Erik: Right.

Jason: Thanks for bringing in those special effects by the way. That was kind of fun.

Erik: I like that.

Jason: I have a gift. Trying to warn you of our time.

Erik: Drinking your coffee at this morning. Kind of it didn't set all right. I guess that's tea not coffee.

Jason: No, this is the good brown stuff. Yeah.

Erik: It's the good stuff. Okay.

Jason: Yeah. Higher caffeine content. Erik, this morning, we're going to be bringing on tactical strategies. Somebody that we've recommended to folks and we're going to talk more about what tactical money management can look like because this is the art side of investing, this isn't the science side of investing. We have to be able to look at a long term track record and say, okay, what has happened historically. As investors know, past performance is no guarantee of future results,



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but it does give us some indication of how things have gone and that's important when we're considering tactical.

Erik: Right. There is no guarantees but there are strong indicators, if somebody has lost money always, why would you trust. On the other hand, if they've done a good job then you can, you can have a higher degree of confidence.

Jason: Yeah. I think the key there is to make sure that you've got somebody that's watching this every single day for you.

Erik: Right.

Jason: That's a core component of what you and I are doing. We're watching this every single day to help guide our clients and when something is not working anymore and we need to make an adjustment or change that, that's where we're the quarterback and we got to make the call. We got to make the decision, do we run or do we pass? It's very easy after the fact to sit on the couch and say, "You should have passed. You should have run." It's another thing to be in the midst of it and say, "Okay, we'll take responsibility. We're going to make the call and we're going to do what we think is best to win this darn game of money, this money game.

Erik: Lots writing on it, a lot is writing on it.

Jason: Yeah. So much writing on it that you need to take it a little bit, probably a lot more serious than some people give it credit. Right after we get back from this break, we will bring on our special guest today to talk a little bit more about tactical money management. We'll be right back after this.

Speaker 1: Are you 50 years or older and have at least \$500,000 of investable assets? If so, this message may be beneficial for you. Are you confident that you will be able to retire and not run out of money? Are you concerned about higher inflation, higher taxes and what market volatility will do to your portfolio?

If you answered yes to any of these questions, then I encourage you to take advantage of this offer. Jason Parker, the author of Sound Retirement Planning and president of Parker Financial is offering a free report titled "10 Things to Know about Planning Your Retirement



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Income” that may provide you answers to the above questions and much more. Call his office at 1-800-514-5046 to receive your report free of charge. Again, call now at 1-800-514-5046.

Jason: All right, folks. Welcome back. This is Jason Parker with Sound Retirement Radio and of course, I’ve got Erik Ramsey in the studio with me this morning.

Erik: Good morning.

Jason: All morning we’ve been talking about some of the different ways you can invest in the market. One of the things that we’ve been telling our listeners to expect is this opportunity to learn more about tactical money management, tactical investment money management.

Erik: That’s right. Lots of schools of how to do this and frankly, active management is just one of the more exciting. I like it.

Jason: Yeah. Today, we’ve got Braver Capital, Emily Gross and Charlie Toole on the program with us. They are ... Charlie Toole is the vice president CFA-CFP, and Emily Gross is the vice president of Business Development there at Braver. They are ... They run several different strategies, some of them tactical in nature. Charlie, welcome to Sound Retirement Radio.

Charlie: Thanks for having me.

Jason: Emily, welcome.

Emily: Thank you.

Jason: You guys, we’re excited to have you on the program. Today, primarily, we want to talk about the Braver tactical opportunity and some of the work that you guys have been doing there. Before we get into that specific type of strategy, can you share with our listeners when we used that phrase tactical, what does that mean to you?

Charlie: For us that means, as you said, being active across different asset classes and sectors in the equity and fixed income markets. What we do that I think is a little bit unique from other advisers is that we use cash as an asset class.

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We're not afraid to move money out of the market and move it into cash. If our computer models are detecting weakness and thinking that the opportunities aren't there. Unlike some advisors who will move from stocks to bonds or our stay fully invested, we use cash as a tool to try and protect that in client's portfolios.

Jason: Charlie, one of the things you just mentioned there was computer model. You've created these algorithms, these models that indicate when maybe you should be moving to cash.

Is it completely mechanical? Is it completely based on the ... what the algorithms are telling you or is there some opportunity for human override in that equation?

Charlie: Typically, we follow the models to the letter. What they're telling us is to make moves into or out of the market. They're based on lots of back testing that we've done. We put our model through rigorous analysis before we even use them for client accounts.

We make sure that they're worthy, I guess to be in the portfolio and then to use them and we know how they have acted or how they work in the past and how we're comfortable following them.

We don't override. The great thing about having that computer model or that quantitative aspect is it removes the human in the show. On days when we're getting a sell signal but the market is up, we don't override that model and use our gut to say, "Let's stay in the market longer." We follow the models and then, we follow the signals.

Jason: What do you say to the people out there that don't believe in active money management or don't believe in tactical? They think that you should just be more of a strategic investor and always be invested. How do you ... How does an active money manager respond to something like that?

Charlie: I think that the way that I look at building portfolios for clients is that you want to be diversified and there are going to be times when your traditional ways of staying fully invested will work better than your tactical or than active management. Those also be a mediocracy case.

People didn't want to stay fully invested in years like 2008 or 2000 or 2002. That's when your active management adds a lot of value. On

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the opposite side, in years when the markets are just moving straight up, that's when having that type of strategy will work better.

It's like large US equities versus small cap value versus growth. Sometimes different strategies work well than others and it's very great. It's better to be diversified across multiple strategies than to put all your eggs in one basket.

Jason: All your eggs in one basket, we're just talking about that.

Erik: We do like that.

Jason: Hey, Charlie, you mentioned that you guys have back tested a lot of these strategies and you do that before you employ them. How long have you been actually, not just back testing, but actually running these types of tactical strategies?

Charlie: We've been running them for a lot years. We've been ... Our firm has been around since the mid 1980s. I think we registered with the FDC in '88 and we've been running these types of strategies since then.

Jason: Okay. With tactical opportunities, specifically, do you know the year that as we ... as you think back about performance and ... because I know you guys have audited numbers that show how long you've been doing this. How long does that go back?

Charlie: When the firm we started, tactical opportunity was the flagship product that was created with the firm. Our numbers are GIPS compliant. We're a GIPS compliant firm. Our returns for our strategy go back to 2000 compliant returns.

Jason: Okay.

Charlie: To be a compliant firm, you can't show anything prior to that.

Jason: I was reading one of the original client mandates when you guys started this flagship tactical opportunity was, don't lose money. Especially in today's market where we see price to earnings relatively high on a cyclically adjusted basis looking backwards.

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There's a lot of talk in the media about that. There's a lot of talk about bonds being overpriced right now in the sense that 10 year treasuries are less than 1.7% yield.

As you look out in the market place today, how does tactical ... what should people expect from a tactical strategy like the tactical opportunity?

Charlie: Historically, the strategy is returned in the mid single digits over a long period of time. But the thing about this ... about the strategy has been very consistent. You don't have a year where it has 30% one year minus 10 the next.

It's been, what we like to say is we removed the tails and we've been very consistent in the middle of the bell curve in terms the tax returns that we deliver on a year in and year out basis.

I think ... I share your sentiments that the market without a strong five-year run in the equity market leads to where they are at 1.7%. There's not a lot of opportunity to earn a solid return there.

We think having a strategy like this that can be opportunistic, be in the market wherein it's moving up and have the ability to move out of the market when it's moving down. It can give you ... We think similar returns to what we've historically done with single digits, with less volatility than the market and not a lot of capital erosion.

Jason: Capital erosion. One of things that I know you've talked about in the past is missing the 10 worst days versus missing the 10 best days. Do you want to take a moment and maybe speak to that?

Charlie: Sure. The crowd that likes to say that you should be fully invested at all times, you get your portfolio and you almost set it and forget it, so to speak. They will always talk about ... They'll talk about active management in a negative way and say, "If you just missed the 10 best days, you really hurt your returns."

That's true. When you look at the numbers, if you missed the 10 best days, in the S&P 500, you're dramatically lower than what the index has.

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You like to flip that around and say, "What if you missed the 10 worst?" Which is really what we're trying to do when we're trying to miss those negative days and the return or the effects of missing those 10 worst days are ... have a more dramatic effect than missing

the 10 best days. Moving ... Missing out on the higher volatility days in the equity markets can really save your capital and prevent you from obtaining losses.

Jason: Yeah. It's interesting to me the psychology behind it to not just this actual performance from a performance standpoint but the emotional component that goes into people psyche. When they're making a lot of money, it really doesn't change their life generally but when they start losing a lot of money that starts getting people pretty nervous, pretty wobbly.

Charlie: Exactly. It has an effect on their emotions and they sometimes do things that can be detrimental to their financial health. They'll sell at the wrong time. They'll move out of the market and move to cash with the wrong time. What we try to do with these strategies have a quantitative way of knowing when to move out and when to move back into the market.

When people sell in a panic, that's one thing that's detrimental to their financial health. The other side of that is when do they get back in? Typically, they get back in too late as well. They sell too late and they buy back in too late. We have a quantitative back tested, time tested way of doing that that can be better.

Jason: You guys have audited numbers there going back GIPS compliant numbers going back to the year 2000. We've had some pretty rocky years between 2000 and now we're into 2015, what on an annualized basis, what's the biggest drawdown? What's the biggest loss you guys have seen with the tactical opportunity strategy over those 15 years?

Charlie: From a quarterly perspective, looking at quarterly return, the largest drawdown was around 9%.

Jason: Okay. That's on a quarterly. What about on like a calendar year, annual?



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Charlie: I think over that time period our worst year was we were negative, we've had a few negative years. I think 2011 is on my mind is the year we were down a couple of percent just because that year with the debt-ceiling debate in Congress, the other market held up very well beating into that and then the first week and a half or so in August, it just dropped out of nowhere.

Our computer models did detect that volatility but there was a pretty steep drop. That occurred pretty much out of nowhere. Basically, I've heard some people describe it as a waterfall that where the market just rolled off the table. That was a difficult year for tactical management in general. I think relative to some other managers out there, we held up pretty well during that year but we were disappointed that it was a negative return.

Jason: All right Charlie, we're at that point where we need to take a break. We'll be right back after this. Seattle, Tacoma, Olympia, Gig Harbor Jason Parker and.

Erik: Erik Ramsey.

Jason: We're in the studio this morning we're talking about tactical investment management. We have Charlie Toole CFA Certified Financial Planner. CFA is Chartered Financial Analyst for our listeners out there that aren't familiar.

Interesting background in engineering Charlie then we also have Emily Gross both Charlie and Emily are with Braver Tactical, actually Braver Capital Management. Emily is the vice-president of business development there at Braver.

One of the things I wanted to ask you about when we get into more of the nuts and bolts of the strategy, help our listeners understand what exactly it is that you guys are doing with these different models that you have within this one strategy?

Charlie: Sure. Within the tactical opportunity strategy we have more than 10 models operating on a daily basis. Those models spend ... as I mentioned before multiple asset classes. If you think of the Morningstar Style Box where we have models that cover value, asset



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classes, blend asset classes, and growth as well as large cap and small cap.

We pretty much cover in the whole Morningstar Style Box. We've got some sector specific models as well. Having individual level, what each of the models do, they analyze the asset class and determine if

the price trends are positive or negative. If they're positive, we'll be investing in the asset class if they're negative, we'll be invested in cash.

Jason: What's the most exposure you can have to anyone at these asset classes?

Charlie: Typically we take a 15% precision. There are some asset classes like the S&P 500 where we have multiple models. We could have up to 25% investment in the S&P 500 but it would be no more than 25% in each of the asset class.

Jason: Primarily, these are all equity asset classes. You're not using fixed income or there is one model on there that's fixed income, isn't there?

Charlie: There is. Yeah. What we're trying to do as I mentioned consistent positive returns. We look to add models that can make money in different environment.

If you have a scenario like 2008 where essentially all the equity asset classes were negative and there was really no opportunity to add value there other than being in cash. We do have a model that's long-term treasury that when equities typically aren't performing well, long-term treasuries are and that's another way we can enhance our return in those types of environments.

Emily: It is our most diversified strategy that we do offer. It's not concentrated in anyone chapter asset class. It is extremely diversified in what they invest in.

Jason: One of the things I find interesting about that is that it's almost all equity strategy. You're diversified across equity asset classes. You do

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have the ability. Now, what's the most you would ever have in those long-term treasuries percentage-wise?

Charlie: The most we would have in long-term treasuries would be 20%.

Jason: In terms of a bond holding and the most you're going to have and one of the things that we've heard is that people are looking at this type of strategy just based on standard deviation and amount of risk because people are so worried about being in bonds right now, looking at a

strategy that can give them some of the upside potential of the market, but also give them some of that downside. One of those asset classes is cash. Is there a limit on how much cash you can move to?

Charlie: No, we can be up to 100% in cash.

Jason: How often do you look at the models, these different models within the tactical opportunity to decide whether you're going to be in cash or fully invested in a model?

Charlie: We're looking ... We're running these models for this particular strategy everyday. Our process is every morning our analyst will download market data from the previous day. They'll make sure that it's correct and in the right format for our model. They'll run the models and generate the output from the computer models and determine if any trade in can be made.

As part of that process, we have a second person whether it's a portfolio manager like myself or Andrew Griesinger or another analyst will do a second check and basically rerun the models again and make sure that there's no errors or nothing that's missed. We everyday have two people run the models and make sure we're verifying the output.

Jason: How much money are you guys overseeing in assets across the different strategies that you're running there at Braver?

Charlie: For our firm, we're just under a billion. We ended the year right around 900 million. I should say in the 2014, right under 900 million in AUM.

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Jason: Okay. On the fixed income side, on the bond side, what are your thoughts about bonds and fixed income at this point?

Charlie: Our firm's audience [inaudible 43:52] are close to all time loans. We don't expect an error like the '70s where rates just fight. We look at it as kind of an opportunity for return. If you're in a 10 year treasury right now and you're earning 1.7% there's not much opportunity beside that two bond in terms of price appreciation.

You might ... The rate fluctuate a little bit and we think that probably will tend to drift higher overtime as we kind of normalize still from the financial crisis. You're starting at much a low coupon rate that there's not a lot of opportunity there for return and we think that there's better opportunities in other places, whether it's tactical strategy like this tactical opportunity portfolio where you do have the protection of moving the cash if equity is not doing well. Or you've been supplementing that with some defensive equities.

Jason: We're heading into the first week of February here. What is that ... what ... On this tactical opportunity strategy right now Charlie what is the allocation look like? We've been seeing a lot of volatility in the market. What do you guys ... How does the portfolio look today?

Charlie: We have. We started the year with about 70% in equities and about 30% in cash. The volatility that we've seen in the month of January, we've raised more cash. Today, we're 35% equities that's pretty much across defensive sectors like [payables 45:24] and real estate and a position on the S&P 500. Then the rest of that is in cash.

Erik: One of the questions that was asked of me recently is, does tactical money management still work when it's really not necessarily fundamentals that seem to be driving the market as it is. Press release is based on what the fed has said that they're going to be doing with interest rates or how the economy is doing.

Charlie: Yes. I think the ones that ... Actually the two things about tactical, at least from our perspective, that I think help our ... we already talked about the kind of removing the emotions with our computer models. We don't have human emotions trying to get in the way of making investment decisions. I think that's still, in today's world, our models are all driven off of price. And awful lot, if you're from the tactical side

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and that any piece of information that's out there is reflected in the price.

Whether it's a press release about the Federal Reserve or Euro dropping or Greece having a change in government. All of that gets reflected in the price and our models will identify any changes in trends based on the price movement and then we'll position according ... based on how our models interpret those price changes and what are they signaling for us to do in the portfolio.

Jason: We're looking at fundamentals then when you talk about price, but we're also looking at trends that are taking place. You're looking at what direction does the ... does that segment, that asset class tend to be moving to make a decision on whether or not you're going to fully invested, fully invested means anywhere from 15 to 25%. Or sit in cash and wait for an opportunity to arise.

Charlie: Yeah. Fully invested for us in the strategy would be 100% equity. We do have the ability to be 100% in equity but it'll be spread out among a number of different asset classes. Large value, small value, small growth, etcetera. Where we can be up to 100% in equity but yes, it is based on those computer models and what their offer is.

Jason: What about a tax efficiency, if we're looking at these models on a daily basis and placing trades which could be in equities one day and in cash the next. That's creating potentially a lot of tax implications. What do you say to folks that are concerned about taxes and taxable accounts that are looking to preserve equity or preserve principle?

Charlie: Yeah. That's a fair point that you're making because these aren't what I would call a tax sufficient strategy. We're more concerned with preserving client capital and moving to cash. We do have a lot of training activity in strategy and we typically recommend that people view the tax deferred account. Whether that's an account like an IRA that to have a strategy like this or using a low cost annuity is also another option.

Jason: Okay. We are heading into 2015, there's ... Europe has started this quantitative easing program. We have \$18 trillion of debt that we've wrapped up, we're still spending half a billion dollars more than we bring in in terms of income in the United States. We have the potential

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on the horizon for maybe inflation or deflation. Nobody is really quite sure how that's going to play out.

If people are heading into retirement today, Charlie based on your thoughts, what should ... Is this a good time for people to be invested in a tactical or strategic asset allocation or you think people should be sitting on the sidelines. Or what would your ... There's a lot of uncertainty right now for people heading into retirement. What would you say to those folks?

Charlie: I'd definitely say that the tax will be a good piece for them to have in their portfolio. You mentioned all the uncertainty and we could have inflation or deflation. Who knows what's going to happen Euro zone

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The great thing about this strategy is that we're removing human emotion, we're using models that we had in place for number of years. These models will react to price trends.

We don't know what's going to happen, we don't know if the market is going to up or if the market is going to down. I'm confident that these models would be able to continue to work in a way that they have in the past, identify the trends in the market, and position portfolios accordingly.

Emily: I can add on this one more thing. I would say that practical opportunities actually is the one strategy that benefits most probably pre-retirees or retirees because we can still get that conservative return not thinking about trying to hit on the ballpark but also that safety of, if we need to go 100% in cash that we can. It is a great complement to the fixed income arena if people are worried about where interest rates will end up in the future.

Jason: I just ... Thank you Emily for that. I want to remind our listeners. We've got a webinar coming up. We're going to have Charlie and Emily on ... doing a webinar for us, to help us get a better understanding of some of the work that they're doing with the tactical opportunity.

You can register for that webinar by going to [soundretirementplanning.com](http://soundretirementplanning.com). That's going to be coming up here. If you are tuning in and you'd like to learn more about tactical investment management this might be something ... an opportunity for you to learn more about this.

I just ... I want to finish up with this one last thought you guys. One of the things you hear from the passive investment community. Here, what Erik and I believe is that we think both passive and active makes sense. We try to encourage our clients to consider using both passive and active in one portfolio. They're using both tactical and strategic.

What do you guys say to the community that says, over a long period of time most active money managers aren't going to beat their relative index and so, as a result you should just buy the S&P 500 and set it and forget it.

Charlie: I think there's two things that you need to evaluate when you evaluate a manager. One is the return plus the other, the risk that they take on



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to get that return. If you are taking on a lot less risk than the market and you're delivering returns that are ... it might not be as high as the market or might not be as high as the benchmark but there's substantial less risk. You're adding value there.

I know that both you and Erik know the lingo, the jargon whenever when we talk about alpha and sharp ratio but that's the way to look at a manager and say, "On a risk adjusted basis, are they adding value to their benchmark or are they adding value to their ... to the market?" That's the way that you can look at these strategies and analyze them.

I think that if you look at our tactical strategies, their returns may not be as high as the market when you adjust them for risk, they do provide a lot of value.

Jason: All right. Folks this is Jason Parker. I've had Charles Toole, Chartered Financial Analyst and Certified Financial Planner on the program with us today talking about tactical strategies. He's with Braver Wealth Management. We also had Emily Gross she's the vice-president in business development. Until next week this is Jason Parker and ...

Erik: Erik Ramsey.

Jason: Signing out. Thanks for being here guys.

Charlie: Thank you.

Emily: Thank you.

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