

A Parable for Beginning Investors in the Land of Oz

by Frank Vasquez @ Risk Parity Radio

There are four places you can be on the map of investing in the land of Oz. The first one is '**earn**', the second one is '**save**', the third one is '**grow**', and the fourth one is '**preserve**'.

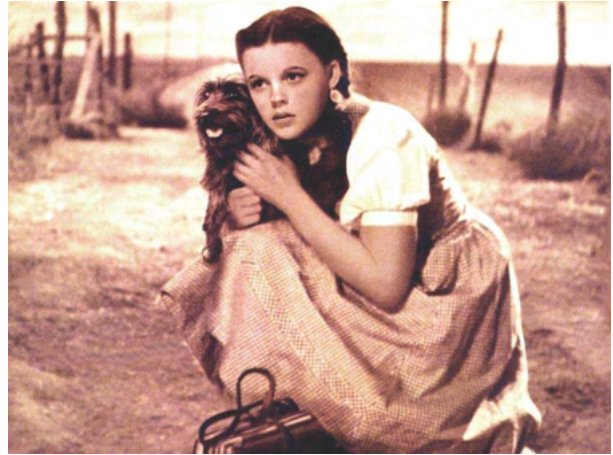
Earn - we're gonna call that Kansas.

Save - we're gonna call that Munchkinland.

Grow - those are gonna be the roads to Emerald City.

Preserve - when you're financially independent, that is Emerald City.

And today we're going to talk about how you get from Kansas to Emerald City.



Now the first thing you need to determine by looking at this map is where are you on this map? Because different behaviors and different things happen in each of these different places. You don't do the same thing in one place that you might do in another. Most of the people I want to talk to today are in Munchkinland or they may still be in Kansas. So we're mostly going to be talking about Munchkinland and choosing your road to Emerald City.

But let's talk about Kansas first.



Most of us start in Kansas. Life in Kansas is not about investing. It's about earning enough money to pay your expenses. And you're going to stay in Kansas until your income exceeds your expenses. And the truth is, many people never get out of Kansas or end up back there due to unfortunate circumstances.

Because there are only two methods to get out of Kansas: you either have to increase your income until it exceeds your expenses, or reduce your expenses until it's less than your income. And if you have trouble doing that, you may need help with budgeting. Once you have created that differential between expenses and income, we will refer to this as "the gap". Once you have a gap, you can get to Munchkin Land.



And it is there in Munchkin Land that you do your planning for your trip down the roads to Emerald City, which will hopefully get you to Emerald City someday. Now Munchkin Land is a very confusing place with lots and lots of distractions. And there are a lot of people in Munchkin Land who are trying to get some of your gap. They see people come out of Kansas who have a gap and they want to sell them something or give them something in exchange for some of their gap.

And so it's like this giant bizarre, a bizarre bizarre, with some stuff you do want and a lot of stuff you don't want.

Now let's talk about some of the stuff you will want or need for your trek to Emerald City and then we'll talk about some of the stuff you probably do not want or do not need.

The first people you'll need to go see is the Lollipop Guild. Now, the Lollipop Guild is a little bit misnamed. They don't really sell lollipops so much as they are tailors. And what they specialize in making there are pockets. They'll put pockets on the clothes you're already wearing. These are special magic pockets that are designed to hold the magic coin purses that you'll be getting a little later here in a different shop.



Now, in our world, we call these pockets 'accounts'. They are not investments, they hold investments. Similarly, the pockets in Munchkin land are not magic coin purses, they will hold magic coin purses. So what kind of pockets do you want them to be sewing into your clothes? There are basically three kinds that you probably want to have, and I would recommend that you get at least one of each of these.

One is a pocket or account that goes with your employer. In our world, these are called 401ks or 403bs. And if you have more than one source of employment, you may have more than one. At some employers, you can also get what is called an HSA, but that's more like that little miniature pocket above the big pocket in your jeans. So that is one kind of pocket you want to have and sign up for.

The next kind of pocket you want to get there is called an IRA, and they come in two kinds, a traditional IRA pocket or a Roth IRA pocket, and you can have one or both. Now they have all different kinds of brands for these pockets. I suggest you use the pockets that you might find at Fidelity, Schwab or Vanguard. Those are your most reliable brands. Doesn't mean that those are the only brands, but those are the most reliable ones and they're easy to use.

Now, a third kind of pocket you can get is called an ordinary pocket. Sometimes it's called a 'taxable brokerage' pocket, but you can also set those up at the same place you set up your IRA pocket. and you might not have much use for it right away, but I suggest that you set it up anyway, because you'll want to have it eventually going forward, so you might as well get that pocket right now.

Now, I should say that the Lollipop Guild and their shops are somewhere that you can access from wherever you are on your trip from Kansas to the Emerald City. You just won't have much use for it if you're still in Kansas. But you may want to stop back there along the way occasionally, depending on what goes on in your life. So you don't need to feel like you need to get every kind of pocket available right away, or be too selective about which pockets you get, because you can go back there and exchange

them or get different ones whenever you want. But I would suggest you get those three pockets. your 401k or 403b pocket, your IRA pocket, roth or traditional or both, and an ordinary brokerage or taxable brokerage pocket. But now we will leave the lollipop guild and go see the Lullaby League.

Now the Lullaby League runs an incredibly large, messy store of magic coin purses. Looks like the shop in Diagon Alley where Harry Potter got his wand. Except it's like 15 times that size. And they are all very enthusiastic in there about their magic coin purses. And that's kind of the problem that there's so much enthusiasm going on there, it's hard to determine what you really need, because you only need a couple things in here and there are tens of thousands of things to choose from.



So what are these magic coin purses? Well, these are the investments, we would say, that go in the accounts that we were just talking about. You're going to take your magic coin purses and put them in those pockets that you've had sewn into your clothes. Now we can talk for days on end about all of the magic coin purses in that store.

But I want you to avoid the noise, the clutter, and go find the aisle where they have the plain colored coin purses, which are also known as 'index funds'.

Because what you will find is some of these coin purses are very expensive. They have all kinds of designs. Some of them have holes in them. Some of them claim to do special tricks. Some of them glow.

And it's all very overwhelming and confusing. Now I want you to go and find the green ones, the plain green ones. The plain green ones are the ones that invest mostly in the biggest, most famous companies. And they will have names like 'Total Market Fund', like 'S&P 500 fund' or 'large cap growth' or 'large cap blend'. Some other variations you may find is that some are labeled mutual funds and some are labeled exchange traded funds or ETFs. They actually have the same stuff in them. What are called ETFs are just made out of a slightly more modern material and they open and close a little bit differently, but they don't function any differently overall.

Look at the prices on the bottom of them, what are called 'expense ratios'. You want the ones with the expense ratios of 0.1 or less. You want to avoid ones with expense ratios that are much higher than that. Particularly be wary of anything that says it's fancy and has an expense ratio of 1% or more.

The most important thing to realize is that all of these kinds of green coin purses are going to work almost the same, and the only real difference is how much they cost. Now thinking about those pockets again, that pocket that is your employer 401k or 403b may have a limited number of coin purses that can go in there, but just pick the one, the best one, that can go in there that is this simple plain green color.

Now if this process has exhausted you so far, you can actually stop right now and continue on with just one green coin purse.

Because like the shops at the Lollipop Guild, the shops at the Lullaby League you can come back to from anywhere you are on your journey from Kansas to Emerald City.

Now, if you still have a little stamina left and would like to choose another coin purse that's a different color, go look at the gold ones, the plain gold ones, goldish yellow. These are all coin purses that specialize in small companies. Now, like I said, you don't absolutely need this one now, but if you'd like to pick it up because you're probably going to want it later, get the one that says "small cap value" on it. There'll be a number of them that say small cap value. And again, look for a low cost one. And they also come in both mutual fund and ETF construction, but they both work about the same.

Now just a couple of precautions here. You may be tempted to wander around in other aisles because this is a very curious place and there's a lot of stuff in there. But it's not a good idea to be picking anything out of a different aisle right away. You will have a chance to read about what's in these aisles and decide whether they are appropriate for you later along your journey. You don't need them right now and they will not make you go any faster.



Now on the end of the index fund aisle, in the Lullaby League store, you're going to find some special display cases. These are new. And what you'll see in there are multicolored coin purses that advertise that they change color from time to time. And they're kind of like prepared or processed food because they're advertising: "look, we have everything here in one. And you don't need to shop for individual ingredients". You may know these from our world as something called a 'target date fund'. And while it's trendy and does work, it will not work as well as picking the raw ingredients yourself and may discourage you from learning how to cook for yourself.

And so I would avoid those two. and stick to a plain green coin purse and perhaps a plain gold one to go with it. You may want or have a couple different green coin purses, but you should consider them as all the same kind of thing as if they were all one kind of coin purse because they're not going to perform any differently really in any way that is meaningful or that you can predict. Okay, so we're done at the Lullaby League store.



There's only one other thing we need to absolutely get here in Munchkin Land, and that is a pair of ruby slippers to walk in.

You'll get those from the Good Witch, Glenda. They have what is called the 'magic of compounding' built into them. But you have to use them in the right way because they work in concert with the pockets and the coin purses.

Now we haven't talked about the roads to Emerald City, but let's start talking about that a little bit now. This combination of your pockets, your coin purses, and the ruby slippers are designed to help you walk along the yellow brick road. You need to use 'the gap' to make yourself move. And you take your gap, you stick it in the coin purses, you keep them in your pockets, and as you get more gap money, you keep feeding it. As you do that, you will find that the ruby slippers walk slowly to begin with, but they start getting faster and faster and faster the more you put into these coin purses from your gap money. And they will start going so fast that the last half of your journey to Emerald City will take only as much time as the first couple miles took. Because that is the miracle of compounding. And so the most important thing at the beginning is to keep feeding the coin purses. After you get a third of the way or half of the way there, you won't even really need to feed the coin purses anymore and you'll still keep going.

But you need to avoid derailing yourself. Because what happens sometimes is people think, "well, maybe I should take my coin purse out of my pocket and spend it or do something else with it". And that will slow you down or even send you backwards.

Or sometimes people see bad weather. And the coin purse starts feeling lighter than it used to. That is also the time you need to keep feeding the coin purse. Because as long as you keep moving, you will get there in a reasonable time. Now, 20 or 30 years ago, the yellow brick road was not nearly as popular because it's for people who want to walk to Emerald City by themselves using these methods. But as more people walked that journey and told other people about the journey, it's become more and more popular. And so you'll find a lot of other people along the way, and they're cheerful people who love to share their experiences. You will also find a series of little free libraries along the way with lots of different information about all that stuff you saw back in Munchkin Land and the stuff you're likely to see as you get towards Emerald City and into Emerald City.

Now you'll also see some ads and other things that are not worth reading that people have left strewn around, but you do want to read the materials as you go and talk to other people along the path of do-it-yourself investing about those materials. A lot of those materials now come in audiobook form. A lot of them are called 'podcasts', so you can listen to those while you're walking along too. And so if you just do what I told you, you will get to Emerald City in a reasonable period of time. It is the most reliable way to get there in a reasonable period of time. Doesn't mean it's the fastest way to get there. Doesn't mean it's the only way to get there. It just means this method works the best for most people.

But now we need to go back to Munchkin Land and talk about some of the things there that you probably want to avoid or not get involved with. You will find a lot of hucksters back there on one particular side of the road who are going to try to get you to get into one of their carts, which they say will take you to Emerald City. And as part of their pitch, they will be saying things like, "it's too dangerous to walk to Emerald City by yourself", and that you might fall down, and that you need 30 coin purses instead of one or two, or they'll try to convince you you'll get lost. But the truth is, if you have a map and you follow your map, you're not going to get lost and you're going to be stronger for having walked there than you would be for not having done it. Stronger and smarter about your finances.

So what kind of carts and wagons and things will you see there? First there are some ox-drawn carts or wagons. These are very old. They are typically run by banks, more often by insurance companies. And

their pitch is that 'we will keep you safe'. And you won't have to walk. You can ride in this cart all the way to Emerald City. And all they ask in exchange for that is your gap. And then you'll find another set of carts that are horse-drawn carts. They have names on the side of them like Ameri-Jones or Edward-prise.



And they have ads up all over Munchkinland. Some of them have more ads than others. But their pitch is kind of the same as for the ox-drawn carts. They want you to give them your gap money, and they will let you ride along, and they claim to get there faster than the Ox drawn carts. And then there are the newfangled carts that have just come around recently, and these are actually pulled by robotic animals. And they will say that "you can ride in our carts and will get there even a little bit faster than the horse-drawn carts or the ox-drawn carts. And you won't have to do anything, just give us your gap". These are also known as 'robo-advisors'.



Now, what do you need to know about all of these cart pullers and why you probably don't want to get in these carts or wagons or jitneys or whatever they're putting out there today?

Well, it's a trap.

It's a trap on several different levels that you may not appreciate while you're in Munchkin Land listening to their pitches. The first part of the trap is that these carts cannot go on the yellow brick road. They have to go on a longer road called 'the cart path'. Because the yellow brick road is for nimble people who can walk, not people that need to ride in carts. And so the cart path goes a longer way, crosses back and forth across the yellow brick road at various intervals, but actually takes longer to get to Emerald City than the Yellow Brick Road does. Assuming you're staying on the Yellow Brick Road and using your ruby slippers the way I told you.

And along that way, you have to make many stops. The reason you have to make many stops and why it takes so long is that you have to feed all these animals and the people that are driving the carts. And so a lot of your gap money just goes to that and is not anything you get to keep or anything that gets to grow. And that's why it takes longer. But it gets worse than that. It not only takes longer, they don't actually take you to Emerald City. Where they take you is this: there is this gigantic field of poppies not too far from Emerald City. And all of these carts go there. They don't go straight to Emerald City. They go to this little place in the field of poppies that makes you feel kind of sleepy and zoned out. And although it's not far from Emerald City, what happens to the people that ride in the carts is their legs get so atrophied riding all the way that they are unable to actually walk that last distance to Emerald City. So they're stuck in this poppy field. Now, of course, then the cart sellers offer them other carts and modes of transport to take them to Emerald City. How convenient. But they're not going to tell you that when you get in the cart at the beginning.



And for the pleasure of taking you from the poppy field to Emerald City and carting you around in there because you can't walk anymore, they'll just charge you an annual fee. And they have these big long straws that they stick into your coin purses to suck it out as they go.



But that leads me to probably the most important point about why you don't want to ride in one of these carts all the way there. It's a more subtle trap, but a trap nevertheless. As I mentioned, if you ride in the cart, your legs become atrophied and you're unable to walk the rest of the way. But you're also unable to take part in the little free libraries that you would have found along the Yellow Brick Road and all of the helpful people that you would have found along the Yellow Brick Road. All you'll get when you ride in the carts is a lot of propaganda and fear stories and other drama presented to you by the people that operate the carts to entertain you along the way, but also to keep you in fear and ignorance because they don't want you to be able to walk to Emerald City. They want to keep you in that cart, keep getting your gap. That's how they do their business.

And so by not walking on the Yellow Brick Road, you're actually depriving yourself both of the strength in your legs and of the knowledge you would have learned on that walk. And it's that strength and knowledge that'll help you live a great life in Emerald City as opposed to being one of those people that has to be dragged around in a cart because they don't know anything and their legs are atrophied.

But that's enough about the cart pullers. Now let's talk about what you see on the left sides of the road in Munchkinland, which are the Whirlygig operators. And they have their own set of hucksters out there. Who are much more exciting than the hucksters on the other side of the road.

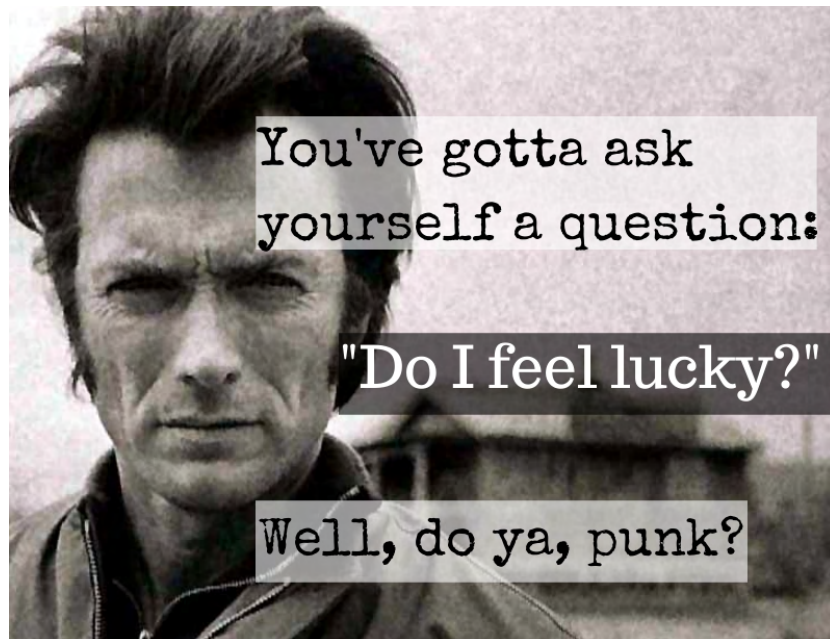


Because what their pitch is, is that you shouldn't take a cart to Emerald City and you shouldn't try to walk on the yellow brick road to Emerald City. What you should do is get into one of these whirly gigs and see if you can fly there as fast as possible. And these whirlygigs come in all shapes and sizes. They're all some kind of flying machines. And they rank from completely illegitimate or almost completely illegitimate to things that you can actually fly and use if you know what you're doing.



And the truth is that some of these whirlygigs do make it to Emerald City. But often times it's just a small percentage. And so you'll see a promoter saying, "Look, somebody went in one of our whirly gigs and made it to Emerald City in the time it takes to walk just a quarter of the Yellow Brick Road".

But what they won't tell you is that 90% of the people that got into that whirly gig actually crashed somewhere else. Some back in Kansas. Some back in Munchkin Land. Some somewhere on a cart path or on the Yellow Brick Road.



And so the percentages of success for a lot of them is not actually that high. And those people who put their money there are either back in Kansas or just getting out of there.

Some other whirly gigs known as MLMs or multi-level marketing tend to have a success rate of about 2% with most of those whirly gigs crashing back in Kansas. And you will also encounter some whirly gig promoters who are giving you this system to go back into the lullaby league store and buy and sell coin purses, and those don't have a very good track record either.

Now, there are some whirly gigs that can and do make it to Emerald City on a more reliable basis, although not nearly as reliable as walking down the Yellow Brick Road. And these are generally more complicated. You have to learn how to fly them and learn how to fix them along the way if they have trouble. And these include your real estate whirly gigs and some other small business kind of whirly gigs.

Now, if these intrigue you, the best thing to do is stay a little longer in Munchkin Land and actually go to Whirly Gig School, where you learn how to operate these things properly and fix them. And some of the more honest promoters will actually tell you that as well.

But the disreputable ones will just try to get you in whatever contraption they've got on the lot as soon as possible. Get your gap money. And won't worry about whether you crash or not because they know most of them are gonna crash anyway.

As with the Lollipop Guild tailor shop and the Lullaby League store, you can always come back to Whirly Gig School from wherever you are in the Land of Oz. Or even in Kansas. But for right here and right now, it's just enough for you to know what's there, and about the possibilities, and more importantly, the probabilities of flying a whirly gig to the Emerald City versus walking on the Yellow Brick Road.

And just one other thing I almost forgot to mention. You may hear this noise from time to time in this land we've constructed. And that noise is the financial media. And they come out every day and wander around and bellow to try to attract attention and scare people.



You should feel free to ignore them, but you should also recognize that they are in cahoots with some of the cart pullers and with some of the whirly gig operators. And if they have any goal at all besides attracting attention, it is to get you to ride in carts or fly whirly gigs. Don't react to them and don't fall for it.

So now let me just sum up some points for your trip to Oz and trying to get to the Emerald City. First thing you need to do is get out of Kansas. You do that by having a gap between income and expenses. And then you get to go to Munchkinland. where you want to avoid the distractions and just do what you need to do to get on the Yellow Brick Road at that point. And all you need to do is this. You need to go to the Lollipop Guild, get those pockets that you're going to put your coin purses in, and just set those up. They'll put them right in your clothes. They don't even charge you for doing it. Then go to the Lullaby League store, Get yourself at least a simple green coin purse, and perhaps a nice golden one to go with it. Then get your ruby slippers, and you are ready to set out on the Yellow Brick Road. No fuss, no muss. And we could talk more about all the things you might encounter on the Yellow Brick Road, or as you get to Emerald City. But that's beyond the scope of just getting going here.



But just one preview of that, as you begin to walk on the yellow brick road, one of the first things you will encounter is a scarecrow that looks like Christopher Walken.

And he's gonna ask to check out your coin purses. And if you have some green ones in there, he's gonna say, that looks good, that looks good. But if you don't have a golden one yet, he's gonna say something else to you.



And he's going to keep hounding you about it all the way down the yellow brick road. Until you get one of those golden coin purses. Because you will need one of those by the time you get to Emerald City. It's just a matter of when you get it.



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