Hello, joining us today is Joe Montgomery of the Optimal Service Group. He's a Barron's Top 100 advisor with more than four decades of experience at Wells Fargo Advisors. Joe, thank you so much for joining us.

Well, thanks for having me. It's a pleasure.

So, Joe, you built a practice north of $17 billion, so you're clearly managing a lot of people's money, helping a lot of people. How do you make sure that you're focused on the long term, but also assuring them in the short term when we get things like the coronavirus selloff?

Right. Well a lot of it comes down to listening and finding out what their needs are when you're talking about individuals. Same thing with institutions, because they're made up of people, and they all have their fears. And so we're generally dealing with something related to longevity, either of the institution, or the individuals looking at retirement. And the safest thing people can do is to focus on diversification. If they get that right, they're going to be OK.

And you have a fun saying for diversification if you want to share that with us.

Diversification means always having to say you're sorry, because there will be something that is underperforming and lagging. But if people understand that going in, that's why it's so important spend the time on the front end. That's why institutions write investment policies, so that in fearful times, they can make decisions to bring them back into compliance, even when personally they may be pretty fearful about it.

Same thing for individuals, so that's why I think you're seeing in our profession more and more people are focusing on building individual investment policies.

And you bring a unique perspective to the table, Joe, because in addition to private wealth clients, you also help massive institutions, the Commonwealth of Virginia, and you started with an insurance company as your first institutional client. I wondered what kind of trends are you seeing with your institutional clients?

Well, I think for institutional clients, diversification, once again, they're expanding the mix, and they have opportunities to do that. And you've seen asset classes-- you folks have featured them many times here, on infrastructure, emerging debt, different kind of holdings in high yield, all of that.

They're expanding the mixes. That's definitely something they're doing institutionally.

And, Joe, on the topic of diversification, we're living in this extremely low-yield environment. We just saw the 10-year treasury yield hit an all-time low, so investors aren't able to find the same income that they're used to with bonds. Do you find that a lot of people are diversifying into other asset classes?

They sure are, or they're trying to figure out what to do, which I think is good. Because it's expanded the mix, and every time you can expand the mix into things, whether it be corporates, high yields, reads, whatever, they may-- all these things are a lot of yield-based investments, income sensitive. So I think what's happened is those folks have, just out of necessity, started to look, and they've done the right thing. Now, if they overweight it, that's a problem, but in small increments. It's what I call the gumbo theory, main ingredient, shrimp, chicken, whatever, pepper, makes it better. But if it was all pepper, you couldn't eat it, so you want small percentages in a lot of various asset classes.

Love the gumbo analogy there.

I like to eat. What can I say?

Well me too, me too. Joe, I wonder too, you talk a lot about how investing is being more and more democratized. What do you think is at the core of this? Do you think it is these liquid alt offerings?

I think that's part of it, because they're a big segment now. If you look institutionally, what's out there institutions, whether it be Yale, you hear about the large percentages that are in alternatives. Liquid alts have given individuals the opportunity to expand the mix, which you've got to think is fantastic in the long haul, because it reduces the risk. And in good times, like we've generally had for a long time here, it's been focused on the return. But there will be moments when people realize how much risk is out there, and they're going to wish, wish they had had that kind of diversification.

Because these alternative assets aren't quite as correlated with the regular markets?

Right, at least hopefully. Sometimes everything goes down, but even in to 2008, there were certain things that responded less bad, let's say, and occasionally something that did pretty well.

And in addition to market risks, you're also looking at another major risk, and that's longevity risk.

Right, I'm glad you brought that up, because I think you're going to see more and more about it. And I think when people see it, they should stop a minute read about it and learn about it. Longevity risk is not new, but since longevity has doubled in the last 150 years, it's become more and more, I would say, dramatic when you realize if you keep retiring-- if people retire at 65, well they generally made it into their 70s, at least one of a couple did.

And now you're talking about 95 for almost a break-even probability for a couple at least one of them making it to 95. So people, whether they know it or not yet, they're thinking about it, and they may just express it as being, "Well, am I going to be OK?" And the difference in the way the business used to be, it was very product driven. Now it's really, we're looking for strategies to solve, so we're trying to solve for a longevity at this point.

And, Joe, you've been looking at all sorts of Monte Carlo simulations on this. What are you finding?

Well what I'm finding is that people are starting to pay attention to it, because they're starting to understand it even if you don't understand the calculations, which I'm pretty sure I don't. But I do understand how they work from statistics. You talked about Virginia and going back to when you were in Marian statistics classes, how important it is. But they're probabilities, so there are no guarantees. So what people are looking for is trying to find a way to be comfortable enough-- it didn't have to be 100%, but it needs to be close.

The important thing when you're looking at probabilities is to know what goes into it. So if you're assuming and one of a couple will make it to 95, it's important to know that, because there may be a point that it needs to get moved up to 100 if people keep living longer.

It's also important to know what assumptions were made in those asset classes. Most of the assumptions that people are using or based off of historical data. And when we're in an environment as you mentioned earlier about fixed income being at all-time lows, if you're looking at the historical rates and baking in those rates, you may have some bad data.

Your 60/40 it's going to look pretty different.

Yes, it is. So you need to know what the inputs are. You don't have to be an expert. Speaking as a client, you don't have to be an expert, but who you're talking to needs to be an expert.

And with your institutional clients that you work with, how are they thinking about longevity risk?

Well it's interesting you mention that. Pensions are all based off of they've got to take care of the people for their lifetimes. So it's becoming a bigger and bigger concern to pensions.

Endowments, while they're there to be, in most cases, forever, they too need to think about it, because if things get more expensive, they need to think about-- it depends on what they're-- what they're taken care of with that endowment, whether it be colleges, or it be museums, whatever it may be. But you need to think about what's the long term for that institution, and will they have other sources of funds coming available to them?

And going back to your point about pensions, a lot of companies have guaranteed this retirement income to their former employees.

Yeah, that's terrifying when you think about what happens if everybody lives to be 100. The math won't work, and so people need to be thinking about that. And they need to be upfront about it.

Well, Joe, thank you so much for your insights. We could talk to you all day, but we'll have to leave it there. Thanks so much.

Thank you.

And thank you for watching. That was Joe Montgomery of the Optimal Service Group of Wells Fargo Advisors. From our studios in New York, I'm Jenna Dagenhart.