4 Lessons from 4 Decades of Investing

October 2023

Featuring:

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VO [00:00:01] Is your wealth strategy supporting your long-term goals? Welcome to *Your Active Wealth* with BNY Mellon Wealth Management, where we offer insights that can help you move closer to your goals. We'll tackle timely topics through the lens of the five pillars that comprise our Active Wealth framework: Invest, Spend, Manage, Borrow and Protect, and provide guidance on navigating the unpredictable, to help you build and sustain wealth.

Alicia [00:00:33] Hi, everyone. I'm your host, Alicia Levine, head of investment strategy and equity advisory solutions at BNY Mellon Wealth Management. Welcome back to *Your Active Wealth*. Today's episode is very special. After more than 40 years on Wall Street and 16 years as chief investment officer at BNY Mellon Wealth Management, Leo Grohowski has decided to retire at the end of this year. But, and lucky for us, before he walks out the door, he's agreed to share four of the many lessons he's learned from his long and distinguished four-decade career. Leo built a formidable franchise here at BNY Mellon, leading a team of over 300 investment professionals and wealth managers that oversee approximately $280 billion in assets, offering clients access to a broad range of investment capabilities across public and private markets, and ultimately delivering superior investment results across multiple time periods. Prior to joining BNY Mellon, Leo led the investment divisions of several prominent wealth managers and asset managers. But outside of his work at being BNY Mellon, Leo also served on the Board of Trustees and Chaired the Investment Committee of Drew University and also served on the investment committees of Blair Academy and Far Hills country day school, where he also served as vice chair of the board. Leo, welcome to the podcast.

Leo [00:02:05] Thank you, Alicia. It's a pleasure to be here today.

Alicia [00:02:07] So before we dive into your four lessons, let's go back to the start of your career. You were fresh out of college with an economics degree. What brought you to Wall Street?

Leo [00:02:18] Well, Alicia, when I speak with students and young professionals today, I always remind them to pursue their passions proactively. And I guess looking back, that's what I did. I think it was really a combination of coursework in college and an internship that was arranged by a professor for whom I served as an academic assistant that took me to a trust company of a regional bank. And that's where I got to see really the practical application of the economics, finance and investment classes that I was taking as an undergraduate. So upon graduation I was offered a job at that trust company and following a management training program where interestingly, they wanted to place me in the commercial lending division, really a combination of pleading my case and then just running into the head of the trust division literally at a gas station. I think my passion for investing became apparent to the company and I was able to land a position as an assistant portfolio manager. Hard to believe that was 43 years ago. Actually, just over 43 years ago now. I went on to earn an MBA from New York University while I was working full time in investments and then I went to work for several financial firms that have since been merged into larger companies, most notably Bankers Trust Company into Deutsche Bank, U.S. Trust Company into Bank of America. But when it's all said and done, I've been sitting in the chief investment officer chair now since 1993, including here at BNY Mellon Wealth Management since the fall of 2007. Time goes by fast. But yeah, it was 43 plus years ago where I got started on Wall Street.

Alicia [00:04:06] That's incredible. And your career has really spanned all of the industry as well as many investment cycles. You have so much knowledge to impart to us from what you've seen. I want to get into your four lessons from four decades. I don't know which one I like the most, but I will start with lesson number one, which is something that we talk to clients about all the time, which is that concentration builds wealth and diversification sustains wealth. Can you talk to us about that?

Leo [00:04:36] Well, sure Alicia. As you know at BNY Mellon Wealth Management we work with high-net-worth clients who are entrepreneurs, business leaders, families. In many instances, they've built their wealth by leading successful businesses, and we see a lot of concentrated investments on the way in. And while concentration often powers the accumulation of wealth, it's not necessarily a prudent strategy for sustaining wealth across a lifetime and across generations. I often see, as I'm sure you do, Alicia, when making presentations, I see eyes roll sometimes when we mention the word diversification. But it's really an important concept that helps to dampen the volatility. It's often said that there's no such thing as a free lunch, but in investments, when you can combine asset classes and without getting too technical. Asset classes that behave differently, they're correlated differently. The building of an optimal portfolio to create objectives is really the mixing and matching of these asset classes. And as some of the listeners may know, I've done presentations over the years, I often talk about the three D's: diversification, discipline and due diligence. And there was a reason that that first D is diversification. It's arguably the most important of the three. And let's think about it, Alicia. As you know, asset classes can get on a roll and investors can sometimes get lazy. That second D, discipline, I often equate with rebalancing and rebalancing is hard, right? Rebalancing means selling something that's done well and buying something that hasn't. And I think going into the year 2022, we had mid-teens returns from large cap stocks as measured by the S&P 500. And as we know now, with the benefit of hindsight, 2022 was really a painful reminder of the benefits of diversification and not a 60/40 portfolio. As many of us now know, 2022 was not a year where bonds were necessarily a great diversifier, but rather what we call diversifiers at BNY Mellon, or others call alternative investments, really helped cushion that downside in what was a very challenging year. So what do we mean by diversifiers? Things like hedge funds, private equity, real assets. Many of those had not performed as well as equities for the ten years prior. But once again, 2022 was I think for many, a strong reminder of the benefits of diversification over longer periods of time.

Alicia [00:07:30] Look, I think that is such a great reminder because as you've talked about, it's very hard to get clients who've created wealth through concentration, whether it's a company or whether it's single stock, to diversify. And as the saying goes, past performance is no guarantee of future performance. And diversification is really the key, precisely when perhaps clients may be most reluctant to do that. So I think that's a terrific lesson. But I think the next lesson is also really interesting. Maybe it's my favorite and it talks about the environment in 2022 and 2023. And that lesson is bear markets are short, bull markets are long. Let's talk about that one for a minute.

Leo [00:08:17] During my 40 plus year career, the S&P 500 has had yearly declines of 10% or more, 24 out of 44 years. That sounds like an extraordinarily high number. And I'll be honest, it's made for some difficult days and sleepless nights. When I was a younger investor, Ronald Reagan was actually the president. Inflation was a real problem. And I learned firsthand about the inverse relationship between inflation and P/E ratios. The P/E ratio when I started investing was less than ten, but that's because inflation was running at double digits. And I remember buying a zero coupon tax free municipal bond at 15%. It had a 30-year maturity. And I thought back then 30 years, I don't really have to worry about reinvestment for a while. Needless to say, I was very sad when that security came due 30 years later at 15% tax free. But look, I've worked through Black Monday, two wars in Iraq, September 11th, the global financial crisis, Brexit, COVID, etc. And over the years I've certainly come to accept that market shaking events are really an inevitable part of investing. And in all of these situations, the stock market eventually moved past the events and climbed the proverbial wall of worry. I will say this, when I was growing up in the business, we had common trust funds that were valued once a quarter, and I often think it was easier to invest for the longer term when you only had pools of capital valued quarterly instead of minute by minute. But look, another interesting statistic I can share with you. The year I started on Wall Street, the S&P 500 finished at 106, not 1,006, 106. And as of last Friday, October 6, 2023, the S&P 500, as we all know, was right around 4,300. That's a cumulative increase of, ready for this 3,926%. That's 8.8% annualized. So I didn't have $1,000,000 in the year that I began my career. But if I did and I invested in the S&P 500, it would be worth just over $40 million as of October 6. That is pretty powerful, right? 40 years. So time is the friend of the equity market investor. And I try to say that slowly because very often as professionals, we have to remind ourselves of that fact when we're dealing with market moves by the day and by the hour. So really keeping your eye on the long term, investing is not necessarily for the short term faint of heart. There are, as you well know, Alicia, going to be many ups and downs along the way. But history has shown us that the longer-term trend, particularly when measured in decades, is certainly upwards. You know, before I move on, I do have to say this, though, that it doesn't mean tactical adjustments shouldn't be made. And I know, Alicia, this is near and dear to your heart as chair of our investment strategy committee. But objectives do change, and markets do get overvalued and undervalued. And that's why at BNY Mellon, we do make tactical decisions on a 12-to-18-month forward view. But it's very important that those tactical decisions are grounded on strategic views and strategic asset allocations that are made with a ten-year time horizon. And with those ten-year time horizons, there's always a healthy dose of equity in a balanced portfolio for reasons that I mentioned earlier.

Alicia [00:12:05] These are such great points. And you know, on the difficult days, there is a tendency to not want to stay invested. But as we well know and as we tell our clients regularly, if you were out of the S&P 500 during the top 20 days since 1980, your return would have been 3.3% less annualized than if you had stayed invested. So it's really important to follow the plan. And as you said, you know, eyes on the prize. What are your objectives and how do you think about where asset classes are going over the next ten years? So that is at the heart of what we do. And just so important to remind ourselves and to remind investors, particularly on those really tough days. But I want to get to lesson number three, and it's somewhat related to lesson number two, which is use all the tools in your tool kit. What do you mean by that?

Leo [00:13:00] I'm smiling, Alicia, because many of my colleagues have heard me say this for many times over the years. I think about Abraham Maslow. He was a psychologist who formulated the hierarchy of needs, and he once said, If all you have is a hammer, everything looks like a nail. Well, fortunately, investors have much more than a hammer. In fact, they have a very deep toolkit of resources to help them reach their long-term goals. And I'd have to say in my 16 plus years at BNY Mellon Wealth Management, I'm most proud of the toolkit of solutions that we've been able to build and the performance, frankly, that we've been able to generate for our clients with it. You know Alicia, it's interesting. I use the word solutions, as many of my colleagues are also aware. I've never necessarily liked the word product when it comes to investments. I often refer to implementation vehicles, right? I almost try to avoid the word product because product is something that to me sometimes denotes being sold. And for us, it's really timely solutions that can help meet their investment. The investment objectives of our clients and objective advice is sometimes hard to find today, right? At BNY Mellon I'm very proud of the fact that those individuals constructing portfolios are not compensated based on the revenues being generated by those portfolios. And that isn't necessarily the case as much in our industry today as perhaps 40 years ago when I was starting out in the industry. And I think that objective advice really needs to begin with the objective creation of the investors we're looking to serve. And that requires a toolkit that is beyond just an investment toolkit. We have a tool as part of our Active Wealth framework called Advice Path. And what Advice Path does is take our capital market assumptions, but also looks at those assumptions relative to the purpose and the need for the capital that we're looking to invest and taking into account spending decisions allowing for market drawdowns as we've talked about, those happen quite frequently. Those are all very important parts of the broader wealth management toolkit. Also, as you mentioned earlier, as part of my background, I've had the privilege of serving as investment committee chair on a number of not-for-profit entities. And there's a big difference between before tax and after-tax investing, right? The asset allocation and investments chosen for an endowment fund can and should often be very different from an individual's investments. And as you well know, Alicia, we have, for many decades at BNY Mellon Wealth Management, tax managed fixed income and tax managed equity vehicles. And I've always been amazed many people that I presented to over the years and how many high-net-worth individuals and families still have money in plain old index funds or ETFs that aren't necessarily tax efficient or tax managed. So that's one tool in the toolkit that to me decades later still stands out as one that's not necessarily as prevalent in investor portfolios as it is at BNY Mellon Wealth Management. And then also, as I mentioned earlier, I think that tool kit of less traditional solutions, right. So important in helping to preserve capital in 2022. For investors that can take advantage of illiquidity premium, investing in private markets, will tend to outperform the public markets. And again, that's we're using tools like Active Wealth and Advice Path really helped identify that capital that can be invested looking at multi-year and, in some cases, multidecade strategies.

Alicia [00:17:05] And as you've pointed out, we have definitely increased our allocation to these diversifiers in the last few years because of that illiquidity premium and because we see markets being slightly more volatile than they have been previously in a world of zero rates. And so our clients have really benefited from that diversification and the nod to the after tax solutions. So I think that's great. One of the things I've noticed in the business, Leo, is that those individuals who are managing their assets on their own don't really have the toolkit that you've talked about, and they can do so much better by having a framework such as we have here at BNY Mellon and that you've really implemented here. And I see it all the time, and I know our clients are very grateful when they do come to us because we manage to get them best after-tax returns over the long term. The last lesson I really love, and I know I experience this a lot. I mean, the market can take a lot out of you, particularly when you feel firmly about something and it goes against you. So the fourth and final lesson is remain humble and maintain balance and perspective. How do you do that?

Leo [00:18:24] You know, Alicia, it's too bad it's a podcast and not a video because as you can tell, I've got a big smile on my face. This is not, not, not easy as you mentioned in the intro to the question. But for many years, clients that were on the receiving end of some of my longer PowerPoint presentations, I would begin with a slide on famously wrong forecasts. And you and others have probably seen some of these where a famous quote from a recording label said, “We don't like their sound and guitar music is on the way out” referring to the Beatles. I love that one because I grew up as a as a big Beatles fan dating myself. Whether it's about the Beatles, the size of computers or automobiles as a novelty. I wrote papers on companies that are no longer in existence because they were on the wrong side of those forecasts. So I think it's very important in investing to remain humble. And as you know, Alicia, there have been episodes where some really smart people thought they sort of figured it out. And as it turns out, they didn't. I think of long-term capital management. I think**,** first of all, remaining humble is very important because sometimes the markets make us feel smarter than we really are. And I've always respected the mean reverting tendencies of markets. Warren Buffett had a quote that I try to keep near and dear, be fearful when others are greedy and be greedy when others are fearful. It's a lot easier said than done. Because usually when there is fear out there, there's a reason for it. Alicia, think about early 2020, and I remember getting some really inquisitive emails, shall I say, when at the end of March of 2020 on a webcast we did, we talked about leaning in. And remember March of 2020, COVID had taken the market down 35% in a short period of time. It was a tremendous amount of uncertainty. But at that point, there was so much bad news being priced into the markets and frankly, so much fear that it really paid for long-term investors to take advantage of that as an entry point rather than an exit point. Again, with the benefit of hindsight, that was the right decision. I think, look, it's important to have a point of view and the strength and conviction to take action. But I've never liked terminology used in investing that makes it seem like a game, right? It's not red or black, right? This isn't a roulette table where you go all in on a meme stock. There were times where, once again, I think some investors felt like they had figured it out and then the markets do mean revert. I think it's being humble, respecting mean reversion. And I think in terms of balance and perspective, I also think if it seems too good to be true, it probably is. And that third D that we didn't talk a lot about, diversification, discipline, but then due diligence. I mean, think about as recently as is crypto. There was a lot of quote unquote smart money finding its way into some crypto investments that not only didn't do well, but just went away and so due diligence is critical as part of being humble, as part of maintaining balance and perspective. And then finally, I'd say what's helped me over the decades maintain balance and perspective. Family, friends, vacations. Very early in my career, I was in a meeting where folks were bragging about how many days straight, they worked without taking vacations. And I think not long after that, it became apparent to me that there are times where we need to put our laptops in our drawers. We need to turn off the Bloomberg terminal. When I started out in the business, we didn't have we didn't have Bloomberg terminals. We had a little Quotron Machine that was about 12 by 12 serving an entire office. But we need to turn those off, put our laptops in drawers, and it's really important to rest, recharge, read a good book. Easier said than done. Alicia. as you know better than most, the markets are constantly in motion. Everything affects the investment markets, but it's very important to step back, rest, recharge, maintain balance and perspective. I think that's helped make me a better manager of investments and hopefully a better manager of people and process.

Alicia [00:23:05] Look, I can tell you, you are a terrific manager of people and process and it's really true. I mean, if you don't take time away, you're in this seven days a week, 24 hours a day, because somewhere in the world there's a market that's open and it's very easy to become very narrow. And as you know, to be a great investor, you have to be broad and not narrow. And I think that advice is so important, and the market will humble us all many times in these kinds of careers. And it's just so important to not get overly excited on those difficult days as you talk about and keep the plan and keep the goal and keep the views open while being aware of perhaps changes that you need to incorporate. So I think that's really terrific advice. Even though we will miss Leo terribly and his wisdom and his lessons for investing over many cycles, we're really excited to have our colleague Sinead Colton Grant, who is succeeding Leo as Chief Investment officer. Leo, can you talk to us a bit about the transition?

Leo [00:24:13] Yes, Alicia, Thank you. We've been working on succession planning for some time, and I can assure you and as you well know, investors are in very good hands with Sinead. As you mentioned, Sinead will become our chief investment officer, effective January 1, and I'll be working with her as I have been for the last number of months on transition. She joined BNY Mellon in 2012 and actually has been a part of our wealth management business since the summer of 2020. So, Sinead has been with us for a while in a variety of senior investment roles, including head of Investor Solutions, Deputy Chief Investment Officer and head of equities for our wealth business. So, she has over 25 years of experience. Before coming to our firm, she was in senior management positions at JP Morgan Asset Management and BlackRock. And so, I'm confident Sinead and our investment team, which includes a deep bench and important people like you, Alicia, will only build on the success that we've had and continue to drive strong performance for our clients. So again, I think for those that don't know or haven't met Sinead, you will really enjoy her presence, her intellect, and her investment acumen. She's outstanding.

Alicia [00:25:34] We're really excited to be working with Sinead as well, and we think she'll be a great addition for our team as well as for our clients. And I know you're going to do a roadshow, so that's very exciting. So, you're with the business for a few more months now. What's next for you, Leo? What happens in 2024 for you?

Leo [00:25:53] And the business is keeping me busy, Alicia, right through the end of the year. You mentioned a roadshow which will take us to about a dozen cities in five weeks. And so looking forward to that. After which I do hope to spend some downtime with family and friends, travel a bit, work on a golf handicap that is well north of where I'd like it to be. But for those that know me, and you certainly know me well, I won't be able to sit still, play golf, go fishing all the time. So, I do look forward to figuring out the next chapter. It'll no doubt include hopefully things like boards and consulting work and certainly personal asset management. But I look forward to figuring all of that out without the benefit of a. 4:45 a.m. alarm every morning. And I do hope that I don't cause too much pain to my BNY Mellon wealth manager by staying too close to markets. I promise to be a good client and set objectives and review them periodically. But overall, I look forward to retirement, downshifting and again figuring out that next chapter.

Alicia [00:27:00] Leo, thanks so much for the great advice today. I love your lessons learned over the last four decades because they're memorable and they make so much sense and they're really great ways to speak to clients about their investments. On behalf of all of us at BNY Mellon Wealth Management, we want to wish you continued success.

Leo [00:27:19] Alicia, thank you very much. Such a pleasure to be on the podcast today.

Alicia [00:27:23] Thank you. I've learned so much from you. You've really been wonderful to work with. We want to thank Leo Grohowski, chief investment officer at BNY Mellon Wealth Management, for his insights today. I'm Alicia Levine. Thanks for joining us. And we'll see you on our next episode of *Your Active Wealth*.

VO [00:27:42] Thank you for listening to this episode of *Your Active Wealth*. Be sure to subscribe to this podcast on Apple Podcasts, Spotify, Google Podcasts or Stitcher and visit bnymellonwealth.com to view the latest insights on the subjects that matter most to you.