

# ODDS ON

*the making of an  
evidence-based investor*

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MATT HALL



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First Edition

*For Mom, Lisa, and Harper.  
Thanks for investing in the story of my life.  
I am grateful every day.*



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## INTRODUCTION

I want this book to change your life.

That's an ambitious goal for any book, let alone one about investing, but I know that books have the power to change lives. It happened to me in 1999.

At the time, I had just walked away from a potential career with a Wall Street brokerage firm because I was disgusted by what I'd experienced: a broken system designed to make as much money as possible for the firm at the expense of the clients it was supposed to serve. I feared I might never achieve my dream of finding a way to help people while working in the financial world.

Then a chance encounter in the epicenter of odds-making—Las Vegas—put a new, relatively obscure book in my hands. This book showed me that there was a smarter way to invest—one that not only delivered better returns but also actually put the investor's interests first. I was so inspired by what I read that I became part of a movement to change the investing world. I've spent the past

sixteen years helping clients adopt this better investment approach. And I've put everything I've learned about investing into this book, so I can reach even more people.

Some investment books provide so much technical information that they leave readers feeling overwhelmed and powerless. That's the last thing I want to do, which is why I decided not to write a typical investment book. I'm not going to tell you how to pick stocks or spot the best mutual fund managers. And I'm not going to provide a formula for outsmarting the financial markets. Instead, I'm going to tell you a story—*my* story. I hope that the lessons that have shaped my life and investment approach can help reshape yours.

You'll learn, as I did, why the conventional Wall Street investment approach is so ineffective: It's really just another form of gambling. Most investors try to pick the right investments and time the market's moves, but their chances of winning are as slim as their chance of beating the house when they walk into a casino. The deck is stacked against them.

You'll also learn, as I did, about a better investment approach that puts the long-term investment odds back in your favor. My colleagues and I call it evidence-based investing. Evidence-based investing starts by examining decades of data about how the financial markets *really* work in order to make investment decisions. Based on this scientific evidence, we choose to invest in broad swaths of the global economy that tend to generate higher expected returns over the long term.

If you know what an index fund is, then you already know something about how this approach works. Index funds capture the returns of a group of stocks that share characteristics, such as the size of the companies. These funds *don't* try to pick which companies within that group will do better than others, yet they still tend to outperform funds that have managers and analysts cobbling together customized stock portfolios over longer periods of time. Building on this foundation, the evidence-based movement has been studying market data and academic research to identify the groups of stocks and other investments that provide better odds of long-term success. If you come to believe what I believe, you're unlikely to gamble with your life savings again.

The science behind evidence-based investing is only part of the *Odds On* story. When I was thirty-three and in the midst of developing my skills as an evidence-based investor, I was diagnosed with a potentially fatal illness. I thought I might die without achieving many of my life's most important goals. But the doctors who took care of me taught me an important lesson about how to truly help people facing intense anxiety and uncertainty. That experience helped me combine an evidence-based strategy with an approach to client care and guidance that helps people stick with their investment plan and let the odds work in their favor.

When I started my real career in 1999, evidence-based investing was a tiny niche with only a few followers on Wall Street, let alone Main Street. Since then, it's grown into a force that is threatening to

transform investing. The savviest investors understand the data and evidence, and they are investing their money accordingly.

Even Warren Buffett, considered the greatest investor of all time, recently gave the following instruction for investing his wealth after he dies: “Put 10% of the cash in short-term government bonds and 90% in a very low-cost S&P 500 index fund. . . . I believe that trust’s long-term results from this policy will be superior to those attained by most investors—whether pension funds, institutions, or individuals—who employ high-fee managers.”<sup>1</sup>

Buffett’s advice is on the right track, but my colleagues and I in the evidence-based community go beyond basic index funds to further improve our odds of investment success. And our strategy not only leads to better financial results—it also creates happier, more fulfilled human beings.

I work with successful people who have been poorly served by the conventional investing world. Clients often come to us anxious about the future and saddled with complex, inefficient, and expensive investment portfolios. We offer them a simple, rational, understandable approach and a new sense of freedom. They no longer have to worry about which investments to pick next or where the markets are going, because they have the long-term odds of success on their side.

I know our approach is powerful because I get to see what happens to investors after they make the change. I’ve witnessed clients proudly hold up their iPhones to show me that they’ve erased all the

stocks they used to obsessively follow, telling me how liberating it feels. I meet with clients who say that their only worry now is how to sink a downhill, sidehill, three-foot putt. I've seen a formerly buttoned-up executive obsessed with controlling the uncontrollable transform into a guy who builds homes for the less fortunate and recently made a list of sixty-five things he'll do in his sixty-fifth year of life.

These life-changing stories are why I love what I do. Seeing how evidence-based investing makes a positive impact on our clients' whole lives—not just their bank accounts—convinces me that we're truly helping people. Now I'm inviting you to learn how evidence-based investing could change your life, just as it has changed my life and the lives of thousands of other investors in the past two decades.

### Notes

<sup>1</sup>David Wismer. "Warren Buffett: 'Investing Advice for You—and My Wife' (and Other Quotes of the Week)," *Forbes*, March 14, 2014.



## *Chapter 1*

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### WHAT WOULD ALEX KEATON DO?

I don't remember the precise date, but I do remember that it was a Tuesday evening in the fall of 1997. The night was cool and dry, and I was a young man on a mission. I had styled myself with care, and now I stood in front of my bedroom mirror examining the results. I was wearing my only suit, a \$700 Calvin Klein number in glen plaid that I'd bought the year before, just after graduating from the University of Missouri.

I thought I looked pretty good. And why not? That suit had cost me every penny of my tax refund. It had been weird to walk into the nicest shop in town and drop that much on a jacket and a pair of pants. I'd felt like I didn't belong in the store, and I certainly hadn't yet accomplished anything to make me worthy of such expensive clothes. But in my mind, the suit wasn't about who I was at the time; it represented who I wanted to be.

As a newly minted college grad, I was expecting my life to start filling up with what I thought of as “really important events.” I didn’t know what these really important events would look or feel like, but I figured I should be dressed appropriately when they did start happening.

I was pretty sure that this night was going to be a really important event for me, and I wanted to send the message that I knew what was at stake. I cared. I was serious. The suit was already doing its part by giving me a little extra confidence. I took a final look in the mirror—all good—and headed downstairs and out the front door. I climbed into my car, backed out of my parents’ driveway, and headed for a date with what I truly hoped would be my destiny.

A few weeks earlier, I had washed up back at my parents’ house in Edwardsville, Illinois, after quitting the Saint Louis University School of Law. This was a big deal. I had planned to become a lawyer ever since I was a kid. I’d always thought of lawyers as intellectual warriors, who used logic and charisma to win arguments and help people. When I was growing up in Edwardsville, my family’s next-door neighbor was a high-powered defense attorney. Early in the morning, I’d hear the thud of a heavy car door closing, followed by the purr of a Lincoln Town Car gliding away to take him to work or maybe to the airport, on his way to win his next big case. I had visions of growing up and kissing my adoring wife good-bye on the front steps each morning, as my own

chauffeur-driven car stood waiting to carry me into battle against the forces of evil.

Barely a month into my first semester at law school, my elaborate fantasies were in tatters. My disillusionment started when all of us first-year students were invited to a lecture by a local legend in the St. Louis legal community. I expected him to congratulate us on our career choice and offer insights that would help us reach the pinnacle of our noble profession. Instead, he dumped a bucket of cold water on every head in the room. He told us that only 10 percent of our class would end up with good jobs at the top law firms. The rest of us, he said, would be left scrounging for scraps.

I was a little taken aback, but my instinct was to shake it off and move on. I've always loved it when people underestimate me. But over the next day or two, another thought kept popping into my head: *I will be \$70,000 in debt when I graduate from law school.* Given what our local hero had said, I wasn't sure I liked the odds of landing a good enough job to be able to pay off those loans.

A few days after the lecture, I dropped by my advisor's office to ask him what he thought about my prospects. My advisor was in his late 50s and had been around long enough that he was tired of kids with idealized visions of life as a legal eagle. He told me he agreed that most of us would barely get by after graduating from law school. Then he said, "Do you want to know what the life of a lawyer is really like? Read this."

He handed me a copy of a best-selling nonfiction book called

*A Civil Action.* The book tells the story of a lawyer pursuing a case against industrial polluters who have poisoned a town's water supply and caused local kids to develop leukemia. The book is 500 pages long. It's well reported and well written, but it's kind of a brutal read if you're thinking of getting into legal work. The lawyer spends the better part of a decade working insane hours on a case that seems likely to go against him. I won't tell you whether he wins the case, but (spoiler alert) I will tell you that the guy ends up bankrupt.

My fantasy of kissing my wife on the way out to the limo each morning was replaced with an image of bankruptcy and divorce. I'd imagined myself helping people solve problems and navigate the legal system, while making a bunch of money in the process. But as I read, I began to picture myself living a life of unbearable stress, with nothing to show for it. That book made me feel like the odds were against me doing much good as a lawyer, no matter how hard I worked. And if the guy in the book couldn't thrive with his off-the-charts dedication and obvious smarts, what made me think I'd do better? Meanwhile, I was borrowing \$70,000 to buy my way into this life.

I dropped out of law school the day before my first tuition payment was due.

It was depressing. For the next few weeks, I moped around my parents' house, trying to avoid bumping into them in the kitchen or the hallway. I had fallen short of their expectations, as well as my own. For the first time in my young life, I had tasted failure.

But that night, in my \$700 suit, as I pulled away from my parents' driveway, I felt like I was putting that failure behind me. I drove the 30 miles across town to Clayton, a high-end suburb of St. Louis, in a state of total concentration. I didn't even turn on the radio. I needed to focus on the task ahead of me. I needed to convince a bunch of sophisticated and successful grown-ups that I was a smart, hungry kid on his way to big things—not just a law school dropout with no plan B.

My mind wandered to a pep talk my Dad had given me the week before, during lunch at our favorite Chinese restaurant in a not-so-great part of town. Dad was a school principal at the time, and a great listener. He always said that his work taught him that sometimes people need a kick in the ass, and sometimes they need a pat on the butt. I'd turned to him for guidance after walking away from law school, hoping he'd give me a pat on the butt and reassure me that everything was going to be okay. He did more than that: He offered me a path out of what felt like the wreckage of my (admittedly very young) life.

While we shared a plate of garlic chicken, he told me that I needed to stop worrying about success and instead just find a job doing something I love. Then he said, "I know you're passionate about two things: You love financial markets and investments, and you're really into golf. We know that you're not going to win the British Open, so what about finding a job in finance?"

My dad was right. I had always been interested in how money

works. And by the time I'd hit college in the mid-1990s, investing was *cool*. The first Internet bubble was still inflating, and investors thought they could ride hot stocks to instant wealth. The media was full of stories of initial public offerings (IPOs) that doubled or tripled on their first day of trading and then went on to even greater gains.

A couple of guys at school subscribed to *The Wall Street Journal*, which seemed high brow to me. I started reading it just to see what was going on. I was fascinated by what I found: the stories of how companies succeeded and failed, the fortunes being made and lost in various industries, the way events in one part of the world rippled through the global economy. My schoolteacher parents were not *Wall Street Journal* types—they read the *St. Louis Post-Dispatch*—so this was all new to me.

Dad's advice got me thinking. In college, I had discovered a knack for sorting through complex information, identifying

*I was seeing how financial services could marry my intellectual interests with my idealistic notions of doing something to help other people.*

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themes and connections, and then explaining what was going on in simple, direct ways. I thought this talent would carry me far in a law career. Now I was seeing how financial services could marry my intellectual interests with my idealistic notions of doing something to help other people.

Investors often struggle to make sense of everything that's going on in the financial markets, which means they have a hard time making good decisions about what to do with their money. I could picture myself diligently studying the markets to learn how they really work, and then explaining it all to investors. Maybe this was my chance to do something worthwhile—and to make some decent money doing it.

A week after that conversation with my Dad, I had what looked like an opportunity to get my life back on the rails. The day after that fateful lunch, I had come across an ad in the *Post-Dispatch* announcing that one of the city's big brokerage firms was looking for candidates for its financial-advisor-in-training program. A training program sounded ideal. I would surround myself with some of the smartest, most successful people in the industry and soak up everything I needed to know to become a successful financial advisor myself. I'd spend my career making everyday people rich, choosing just the right investments at just the right times. I'd earn the respect of other brokers and gain a reputation in the community for doing well by doing good. I'd invent a new model for the 21st-century broker, combining the Zen-like calm of a California surfer with an intense commitment to research and a cosmopolitan worldview—all while living in the heartland of America. I'd still be kissing my future wife every morning on the way out the door to a waiting car. But instead of heading to court, I'd be on my way to make a dazzling presentation to a roomful of wealthy investors.

The ad in the paper invited interested candidates to come to an informational meeting and reception at the brokerage office at 6:00 p.m. on the following Tuesday. I arrived 15 minutes early (there was no way I was going to show up late), parked in the garage, and entered the lobby of the imposing 14-story office tower. I took a second to register how clean and slick the space felt, then crossed the gray-tiled floor to board the elevator that would take me to the brokerage firm's penthouse offices.

When I got to the top floor, the doors slid open to reveal a room that met all of my expectations: dark wood paneling, brass trim on the doors and light fixtures, nice art on the walls. The place had a vibe; it felt masculine, and it radiated success and substance. I got a sense that this company had been around for a long time. Important work happened here. The few people I saw walking through the lobby looked busy, well dressed, and confident. I figured they must be the savvy financial experts who helped investors achieve their goals.

I was greeted by a friendly receptionist sitting at a huge built-in wooden desk. She cheerfully led me to a staircase that took us down to the firm's second floor. We made our way to a conference room, where rows of chairs had been set up classroom style. I was glad I was early, so I could sit in the front row. I wanted to be noticed and to make it clear that I was hungry for what this firm had to offer.

Over the next 10 minutes, I watched as 20 or so other candidates slowly filed into the room. I noticed that they looked like me—mostly

young guys in dark suits, white shirts, and conservative ties. They seemed comfortable in their clothes and in this setting, like they had the job already. Maybe they'd gone to Ivy League schools or came from families with long histories in the financial industry. I wasn't rattled, though. I was confident that I could work harder than any of these guys. And given my recent law school flameout, I figured I wanted this opportunity more than any of them did.

The branch manager eventually stood up to welcome us. I was a little taken aback. He reminded me of my old law school advisor. He seemed a little tired, a little burnt out—like he was feigning enthusiasm for the speech he was giving. He said that finance was a great industry, and that this firm was the perfect place to learn the skills we needed to carve out our place in it. His tone wasn't too convincing. But then the branch manager introduced one of the firm's partners to explain the training program to us. It was immediately clear who was the headliner of this event.

The partner looked like . . . a partner. He even *moved* like one, as he strode confidently to the center of the room. He was probably in his 60s, but he seemed young and full of vigor, like one of those guys you see in a Viagra commercial. He was tall and straight-backed, with a full head of perfectly trimmed silver hair. He was dressed flawlessly in a conservative Brooks Brothers suit. This guy simply *radiated* confidence, wisdom, and trustworthiness.

The partner—actually, he seemed more like “The Partner”—stood looking out at us. A slight smile played on his distinguished

features as he surveyed the crowd of young applicants, each of us hoping to win a place on the team. He kept us hanging for a minute, giving us some more time to admire him, and then launched into his pitch in the practiced speaking voice of a television or radio professional. His firm was looking for a few bright, young recruits to join a noble calling. We'd learn alongside experts in the art of investing. They'd help us develop our skills so that we could become artists ourselves, empowered to create better futures for our clients. And along the way, we would make an excellent living.

He took half an hour to weave his story and left us wanting to hear more. I took the bait. This firm had just what I needed: status, respectability, and an opportunity to learn a skill and use it to help others. Here some of the smartest financial experts in the world would take me under their wings and teach me how to help my clients and myself.

I felt only one hint of concern beneath my growing excitement: How tough would it be to make the cut for this awesome program? There was a cocktail reception after the presentation. Rather than leave things to chance and risk blending in with all the other young guys in suits, I stood around until I saw a chance to introduce myself to the partner and the branch manager. I wanted them to know that I *wanted* this.

I looked The Partner in the eyes and laid it on the line: "This feels like a great opportunity," I said. "I hope I have what you're looking for."

The two of them exchanged a knowing look that I thought translated along these lines: *This kid gets it. Might just be a keeper. Nice suit, too.*

I was a changed person as I drove back to my parents' house that night. I had the music cranked up and I drummed my fingers to the beat, feeling totally amped up about my future. Things were about to change for me. No one else knew yet, but I was confident I was on my way.

Sure enough, the branch manager called the next day and asked me to come in to the office as soon as possible. We made an appointment for the next morning, and I went in for my formal interview. I don't remember the details all that well, but by then, I was super confident. I felt like we were just going through the motions to make it official. So I wasn't surprised when I got the call that Friday asking me to come into the office Monday morning to start my training.

As soon as I got off the phone, I ran to tell my parents the good news. I could see how relieved they were—not just because I had found a job, but also because I had finally emerged from my post-dropout bout of moping. For my part, I was sure I wouldn't let them down again.

I like weekends, but this one felt like it would never end. When Monday morning finally dawned, I got up, showered, and took my one and only suit out of the closet. I cringed a little at the thought that I would run into at least a few people who would remember it

from the week before. *Whatever*, I thought to myself. *I'd be buying more suits soon enough.*

I ran downstairs, wolfed down some toast and a banana, and then ran out to the car with a cup of coffee. This time, I didn't want silence as I drove across town to the office. I punched on the radio but realized I had no idea which station to choose. I remember thinking, *What do capitalists listen to in the morning? What would Alex Keaton listen to on his way to work?* I'd always thought of Alex—the conservative, teenage wannabe-Yuppie son of two former hippies on the '80s television megahit *Family Ties*—as the model of a capitalist. Now, it seemed, he'd become my role model.

Anyway, I figured there had to be a station geared toward important business news and thoughtful market commentary. I couldn't find one, so I kept flipping around. I couldn't listen to pop music or hip-hop; that was kid stuff. I ended up tuned to the easy listening station, which hardly pumped me up, but at least felt like something an adult might like.

The music was kind of awful, to tell you the truth. But it was like the brand-new light-brown leather briefcase sitting on the passenger seat next to me, looking a little out of place, like maybe some friend of my parents had left it there. Both the briefcase and the music served as symbols that something fundamental in me had changed. I didn't have to feel like a law school dropout anymore. I was now one of those people who do real work. *Important* work. *Valuable* work. Work that would make a *difference*.

I woke up from my daydream—so much for staying focused—and there it was. I looked up at the building and tried to identify the 14th floor, where I'd be starting my new life. I thought I could pick it out, but I wasn't sure. I turned into the parking area, where I found a spot easily. I'd been in this garage a few times now. I was already killing it. I stepped out of my car, took a breath, squared my shoulders, gripped the handle of my briefcase a little tighter, and entered the building.

I'd arrived a little early (I wanted to beat the other new recruits), and I could tell that the building was just waking up, getting ready for a busy day. The few people in the lobby were moving slowly. They looked like maybe they needed some caffeine, but I was already buzzing. I nodded to the security guard as I crossed the lobby. I felt conspicuous as I tried to pretend that I'd done this trip hundreds of times before, and reached the elevator feeling like I'd just smuggled something across a border. There were some buttons on the wall in front of me. I pushed one of them, and it illuminated.

The door opened, and I entered it.

I was going up.