Episode 181: Bricks, Mortar and Retirement

Wed, Jun 04, 2025 1:20PM • 39:02

SUMMARY KEYWORDS
Retirement income, financial personality, real assets, real estate, infrastructure, portfolio diversification, REITs, rental income, capital appreciation, inflation hedge, commercial real estate, liquidity options, alternative investments, tax advantages, natural resources.

SPEAKERS
Alex Murguia, Speaker 1, Wade Pfau

Speaker 1 00:00
The purpose of retire with style is to help you discover the retirement income plan that is right for you. The first step is to discover your retirement income personality. Start by going to recent profile.com/style, and sign up to take the industry's first financial personality tool for retirement planning. You looking to add something solid to your portfolio, like, say, concrete. Wade and Alex explore real assets in retirement planning and why a little real estate might go a long way.

Wade Pfau 00:52
Hey, everyone, welcome to retire with style. I'm Wade. I'm here with Alex, and we are continuing our arc on alternative investments, and in particular, this week, real assets, which would include real estate as well as infrastructure. And we were thinking there'd be one more episode, but probably there's so much content that we're going to separate it into two. And so we'll have then another episode on real assets with commodities and natural resources. But today the agenda outs real estate and infrastructure. Yeah, excited to hear what you have to say about the role of these in a portfolio, both for pre retirement as well as for retirement, so that folks can retire with style.

Alex Murguia 01:34
We have a full plate, don't we, and that's not even getting into like crypto as an alternative, but maybe that's for some other arc at a certain point

Wade Pfau 01:46
that could be, yeah,

Alex Murguia 01:47
Wade, I think this is an important one, and again. Now, the caveat here is that this is neither an endorsement, nor whatever the opposite of an endorsement is with in terms of investing in these. These are more to help folks become informed when they're thinking about what to include in a portfolio, simply because, as in, there are many things you can invest in, doesn't mean that you need a little bit of everything in your portfolio. What's more important is that you have complementary pieces within the portfolio, so you're always increasing return per unit of risk. And then if those asset classes have low correlations between them or uncorrelated, then

you will get a nice pop of extra return per unit of risk, which is effectively the only free lunch that that is available. Wait,

Wade Pfau 02:41
yeah, yeah. And I think this is maybe the first episode in the series where we don't necessarily need that accredited investor caveat, or at least there are plenty of vehicles available that are not requiring that accredited investor status. Yeah. I mean, there's plenty of private

Alex Murguia 02:54
REITs that would require, yeah, there's a lot of publicly traded REITs that you don't need it and REITs again, real estate investment trusts will be using REITs as the acronym for those

Wade Pfau 03:07
REITs in my personal allocation. So I think we're also in the first alternative investment we've actually used. Yeah,

Alex Murguia 03:14
no, that's a good point. I we have it as well at McLean asset management, our sister firm and I personally have publicly traded REITs. You can, you can really assume that is an alternative asset class, although in my head, I just put it under the equity bucket. But yeah, that's me. That being the case, I'll begin with residential real estate, because that's something that comes up a lot in terms of the questions that we receive, especially from retirement researcher. For those of you who don't know, retirement researcher is our membership site where we treat it like a master class for retirement income planning. Workshops galore, monthly workshops, Q and A's office hours, you name it, we seem to have it on retirement researcher and a question we get a lot with regards to real estate. A are folks that are owning properties, and they're beginning to rent them out before we begin to talk about its role in the portfolio. I think it's interesting, because it comes up all the time during our retirement income challenge. Wade is, what do you consider rental income from a resa prior, Resa profile quadrant standpoint, you consider that to be probability based. Do you consider that to be safety first? Do you consider that to be commitment orientation or more optionality? And I'll let you answer that Wade simply because it'll give us good momentum. Yeah,

Wade Pfau 04:42
and so as we, as we talk about real estate, there's a whole range of potential options here. And you know, we do have individuals who purchase properties and rent them out, and that would be more the less diversified end of the spectrum for ways to invest in real estate. I do. Tend to lean towards thinking of rental income from these properties that you own as being more diversified portfolio. We get pushback on that, and I think there's some flexibility with how you want to classify things, but it's really a matter of if you're not concerned about vacancies, not concerned about maybe being hit by big repair bills that will cut into those rental incomes. Really viewing that net rental income that you expect to be pretty consistent, then you could potentially classify it as part of the reliable income holding. And I'd be fine doing that. But I think if you view it as there is some risk, maybe there will be vacancies, maybe there will be big repair bills and things like that, then you might want to treat it as more part of the diversified portfolio. Now, whether it's optionality or commitment, I don't think that question has come up as much to the it's going to be, of course, it's easier to sell stocks and bonds on the on the market than it would be to sell real estate, but to the extent that you think this is something you could liquidate in a

reasonable manner, if desired. You could probably view it as more of an optionality type of asset. It doesn't require any sort of lifetime commitment necessarily.

Alex Murguia 06:13
I agree with both statements. I would add to that, to me owning the residential property as is, I think there, the expectation is that you're going to sell it at a higher price than you bought it. Now, there's leverage. Usually, you know, you're sometimes it happens, but usually you're not paying 100% cash for the property. And so it's the leverage that really gives you that bump in return being able to scale up your investment, if you will. But ultimately, if you're expecting the house to increase in value in in any significant manner, that's the probability piece, because over time, absent absent inflation, and if you like, you know, hit, hit a neighborhood that was turning around, and you happen to do well, usually real estate is flat. It tracks inflation. It's a lot of the returns are from the leverage piece of it. So to that extent, I view that as probability base. The rental income is interesting because, you know, there's, there's there's when I think of safety first. I do think of contractual income, but the word safety comes into play. So I we usually think of it as risk free bonds, government, you know, us, government bonds, if you will, being the gold standard of safety, anything that's a little less when you get into like B rating C ratings that those kind of, those kind of ratings, to me, probability starts to creep in, because it's not assured that you're going to get that money, even though it's a contract, and much less so with individual tenants. If you I, you know I have a property and I have three folks in it, and I'm dependent on three folks paying me rent. Are those? Are, you know, they have the same credit backing as the US government, no, and so, and then they're going to suffer through economic hardships and things like that, just like everyone else. And so to that extent there is, there is some leeway with regards to their ability to pay month to month kind of thing. And so there, that's why I don't think the probability safety for I don't think it's as safety first as we we think it to be. But that's, that's my view, is of it as well. Wade any anything

Wade Pfau 08:35
with that hadn't even thought of the capital appreciation side I was thinking with. Do you consider it reliable income thinking more purely in terms of the rental income? Yeah, if you're also assuming you'll sell the property and assuming capital appreciation on that, yeah, that's definitely going to be more on the probability based side of the ledger,

Alex Murguia 08:55
yeah. And so there it is on that end. Now residential real estate role in an investment portfolio. And incidentally, I did say I have this, but this was accidental. I was helping out a family member, and it was more issues like that. It wasn't that I wanted to do this from an investment standpoint, in and of itself. I prefer the convenience of liquid REITs myself, residential real estate. It's role in an investment portfolio, again, provides income and capital appreciation by a housing income, the rent capital appreciation, the actual property itself. It's considered an inflation hedge. So when you're thinking about rolling a portfolio, it's considered an inflation hedge. What does that mean? Well, you can always increase your rents, and to that extent, that's the built in inflation hedge in a similar manner that companies can raise their prices right to account for inflation, exposure to consumer demographic trends, if you feel all of a sudden, this is an area that that makes sense to invest in a house because. Is, you know, everyone's moving south, the snowboards, the demographic trends of folks getting away from northern cities, etc, etc, as they age. Then this could be one of those plays within your portfolio. And to a large extent, residential real estate is moving from you're going to have to buy the house you're

so the duplex, the triplex, what have you to now, you can access these direct directly through listed vehicles, right? And as such, it facilitates the ability to purchase and sell these with greater liquidity at hand. Now they are low to moderate correlations with stocks and bonds, and so from that, it's a portfolio multiplier effect to have that right? So those are some, some items you want to consider with regards to real estate, residential real estate within the portfolio. Now, what are some areas there? Well before I get into real estate, I think you also have to consider, and this is anecdotal from all the clients that we've had that have been owning real estate, and all the questions that we get from retirement researchers owning residential real estate, to me, make no bones about it. It's it's like having another job, if you will, in terms of the commitment that's needed from you to manage it, unless you have a you know, you can have a management property person do it, but you know, those are expenses as well. And a REIT fund would charge you, I don't know, between 50 bips to pass a refund. You're talking 2550 bps, at most, basis points of a percent, and so that, relative to me having to go to Home Depot and buy a ring camera system to put it in the house and then manage it and all of that, it's a lot of aggravation of your time. And that's also money that that takes place, but more importantly, it's your time. And is that you want to be a landlord in retirement? I don't know, but that's a job, not necessarily. Hey, I'm doing this and it's passive income. I think that's a misnomer. Wade your thoughts on that just, I just wanted to put it out there, because that's a hidden cost that I don't think people recognize. You know, going spending your weekends, your morning weekends in Home Depot is not something that I consider interesting for myself.

Wade Pfau 12:19
Yeah, and I think it would take a certain kind of personality type too to actually own the individual properties where you're needing to collect the rents yourself. I'm probably too much of a pushover that I would not be aggressive enough on collecting those rents, and so I don't even think about owning individual investment properties for that particular I

Alex Murguia 12:38
hear you. I'll say a story here. One of the ladies. The house that I purchased was for a family member, and it came with three other tenants. The three other tenants have been paying the same rent for the last 10 years, and I don't have the heart to to increase their rent, because they keep you know, they're quiet, they're low maintenance and all of that. And I'm like, You know what good for her? You know, I don't have that mentality that I should have as a quote, unquote landlord. You know, from a business standpoint, I just don't, I'm not wired like that. So yeah to Yeah. In the

Wade Pfau 13:17
retirement researcher community, we do have plenty of folks who do put together a portfolio of individual properties, and it's definitely a big time commitment and takes a certain personality type, but I think they've had good overall experiences with it.

Alex Murguia 13:33
Yeah, no, like I said, if you treat it as a job in retirement, fine, knock yourself out, but there will be a shelf life at some point, because I can't see yourself being like 85 years old, knocking on doors, collecting rent, but that's another story. Now there's some liquid or semi liquid options. Let's say you want access to residential but you don't want to buy the properties, et cetera. There are public REITs that are focused on apartments and single family rentals. Again, none of these are endorsements or anything like that. But you can access this in a liquid from a liquid

standpoint, there's public REITs that focus on apartments and single family rentals. There's non tradable REITs that you can find, such as on Fundrise and the companies like that. Again, technologies have enabled this ability where they aggregate all these individual properties into one offering, if you will. And so you have Fundrise and br e i t like the Blackrock version of it. They offer semi liquid structures around real estate. You also have crowdfunding platforms that enable even fractional investment in properties and interval funds that offer this diversified exposure, but it's period. Interval funds means the interval, means the liquidity is on an interval. Is it quarterly, on a quarterly basis, and the like. And then obviously, there's always direct ownership, which is what we were speaking about at the beginning. That being said, you know, what are some solutions? Here you have invitation homes, you have Avalon. Bay. Those are these major listed REITs for residential, not endorsements, just, you know, if you wanted to do due diligence, that's where you can start. You have fund rise. You have diversify. And it's the way it's spelled, is diversify, and then they mix fund together. So it's diversified fund. You know, again, those are all tech enabled platforms to allow you to get into that Blackstone. I said Blackrock earlier. I meant Blackstone. Have they have their diversified, non tradable residential, multifamily asset REIT that you can look into, and from a fractional standpoint, there's roof stock, there's arrived homes that help you do that in in fractional shares, if you will. And so there are, there are, there are. There is this ability to do this at scale and with somewhat more liquidity preferences than if you were to just, you know, go to REMAX or compass or whatever, and buy a house, right? Or, you know, you get you watch, I don't know what is A and E, and all of a sudden you want to flip houses. That's a, that's a different beast. That's, yeah, what is it?

Wade Pfau 16:04
A home and gardens, network, garden, all right,

Alex Murguia 16:07
I think, which is the one that had, I used to watch religious Trading Spaces. I think that's Bravo. That was on the Learning Channel. Learning Channel, dude, there was a, there was a year that my wife, Christy and I, we saw that religiously for, like, I don't know, like, four

Wade Pfau 16:21
or five months, Paige was the host. Yeah,

Alex Murguia 16:24
all the time. That's like, we were, like, in just we, you know how everyone has that remodeling bug, and all of a sudden we started watching it, and, yeah, oh my goodness. And then you look at your house and you're like, man, miles sucks.

Wade Pfau 16:38
We went to Waco last Christmas time to see chip and Joanne's place there. How did that work out? Oh, yeah, yeah, it was, well, it's worth visiting once. I don't know, I'd go back.

Alex Murguia 16:52
All right, you haven't lived until you've gone to, Waco, Texas.

Speaker 1 16:56
Are you getting close to or are you in retirement? Well, investing during retirement is a little bit different than during your working years. Your investments are there to help you pay for

retirement, and now is when they need to earn their keep to make sure you're on the right track. Download retirement researchers eight tips to becoming a retirement income investor by heading over to retirement researcher.com/eight tips again, get your copy of retirement researchers, eight tips to becoming a retirement income investor by going to retirement researcher.com/eight tips. That's the number eight tips,

Alex Murguia 17:35
all right. So that's, that's what you have on the residential side. Like I said, it could play. It plays a role. I mean, it would play a significantly good role within the portfolio. It just depends. What level of work do you want to do within that? To me, I think liquid REITs are the way to go, that you have them. That's what we have individually. Wade and I said, we just mentioned it. That's similar model portfolios at McLean, asset management. My, my experimentation into residential, actual property was, was not something I wanted to do from the start. It's just something I, you know, I fell into, and so I was just giving you some experiences that I have that, make no mistake about it, it's, it's a job, as is so commercial real estate. What's the role in an investment portfolio with regards to commercial real estate? Now here think about a long term bond versus a short term bond. You know, when you have residential real estate, you're usually doing year to year leases, right? Commercial real estate, long term leases. So it offers in you get this inflation protection through rental escalations, but, you know, you have these longer term leases available. So there's some more you can have a little find a little more solace, and knowing that you've got these things locked in, and usually leases signed to corporations are a little bit stronger than lease to Johnny Smith, or, you know, who works at CVS, and you're, you know, renting a one bedroom for whatever, 2500 a month, right? And so from that standpoint, it's a different dynamic in terms of the risk that you are taking. But that being the case, it still provides this portfolio diversification and lower correlations to the overall market. Now, this was one of these things, though, that you're still subject to the economic trends. I mean, Wade, remember in COVID, what folks were saying about, will folks ever come back to the office and there's going to be this commercial real estate annihilation that's going to happen? Right? That was, was that much ado about nothing, to some extent,

Wade Pfau 19:43
maybe. Well, I think the REITs have held up pretty well over the years,

Alex Murguia 19:49
but, uh, absolutely, that's, that's what I mean, like, who knows. But the point is that they will be subject to overall trends simply because that you know industries that you know they're leasing to industries and. The degree that they suffer so well their ability to pay the leases. But that being the case, there's still strong correlational effects that you could have within a portfolio by bringing in commercial real estate. And we're doing this broad brush again. We're trying to just let you know what the opportunities are available. But we could, do a whole arc on commercial real estate. We could do a whole arc on residential so keep that in mind for those that are really locked into this niche. Yes, we could talk about it more, but this is enough to start sowing the seeds of folks that if they want to look into it more, they can't. The other piece here is there's a lot of illiquidity around these more so because if you own an office building, it's hard to turn that one around, as opposed to owning some sort of duplex in Coral Gables, right? But here, illiquidity premium boosts expected returns over public REITs, especially if you have private REITs. Here, you know a private REIT, like when we did in the last episode, when we're talking about limited partnership structures and the like, you're looking at a seven year holding period,

you know, plus or minus. And so from that standpoint, to lock your money down for that long, the expected return should be higher, if not. Why would you do that? You would just put it in a liquid REIT, if you will. So what are some ways, though, to access these in a semi liquid way, or, you know, just bite the bullet and have the strong lock ups? Well, there's certain the commercial real estate funds, Cres, if you will, that have longer lockups. There's interval funds, such as the Blackstone REIT, and you know, they offer periodic liquidity. And there's public REITs that offer significant exposure to commercial segments, right? And that being the case, there are some closed end funds that do the same with regards to commercial properties. And many times, closed end funds are able to use leverage to also up the dividend a little bit, but that's a double edged sword. Just want to keep that in mind now also crowdfunding platforms, as mentioned earlier, they also have offer access to direct property level investments. So you have liquidity options across the spectrum depending on what you're looking for, but I believe you can, you can find it, and they're out there. You don't have to think about, I'm never going to be able to own this $10 million office building because XYZ. But I really want to get into this area again. You have structures that allow you to scale up your investments. Again. What are some companies that offer these solutions? You have Blackstone, you have Starwood. They do a lot of that. Brookfield and Nuveen offer institutional and high net worth real estate funds. And you have REITs like Prologis and Simon properties that dominate certain sectors. And you know, Prolog just more like industrial Simon properties more like retail malls if that's where you wanted to go. And again, you had these, do you have these marketplaces that offer you access to be able to dip your toes in without putting down $10 million on some sort of doctor's office near a hospital, right? And here you have those are called like Fundrise and crowd Street. Are others that do that, not an endorsement, just a due diligence. Starting point for you folks, what's the role within an investment portfolio and REITs in general? Well, again, you have the ability to provide in a liquid piece. You know you have daily liquid real estate exposures, usually high income yields. Why do they have high income yields? Well, to be classified as a REIT, a real estate investment trust, both public and private, 90% of your income needs to be distributed to investors, and that's why all these REITs have these higher yields than, let's say, a regular stock market. They have to do that that way. They don't get taxed on their revenues. They're effectively passing that on to you, like a dividend stock, a stock that pays dividends. Let's say Johnson and Johnson, they have a dividend. They're going Johnson and Johnson is going to pay taxes on their revenues, and then they're going to issue you a dividend, and you will pay another you will pay taxes on that dividend. So they are getting taxed twice as a real estate investment trust if they distribute 90% of their profits, both public and private. They don't, you know, there are no taxes on that. The investor is the one that's paying taxes on that. All right, income,

Wade Pfau 24:39
orientation, this in terms of asset location, this might be something you think more about for a tax advantaged account.

Alex Murguia 24:46
It's a great point, absolutely, absolutely now, again, you can ask this. You can access this by public market, so there's no accredited investor soft circle. You know, you're not ring fenced out from that standpoint. And again, you can, you can get sector diversification, you can get them all, but you can just, hey, I want to focus on health care. I want to focus on retail right now all the rage is computing power, right? I want to focus on servers, but that kind of stuff now inflation sensitive, because obviously they can raise, they can raise their rents and tax advantage

income vehicles as because, well for them themselves, but you can buy these within qualified accounts, and then that would be beneficial, but you can do that with with any security really. All right, does it enhance diversification? Yes, absolutely it does, simply because it's neither a stock, nor is it a bond. And so you get that hybrid play, and it does add value with regards to a portfolio. If REITs aren't something that you have within your portfolio, it's definitely worth consideration. Uh, again, publicly traded available on all stock exchanges. You have REIT ETFs and mutual funds as well. Now you have some non treatable, traded REITs that offer semi liquid structures through interval funds, but those are the ones that are more specialized. If you really want to get more specialized REITs, you're going to have to kind of be okay with that. Another thing that you see that I haven't mentioned yet. That's really interesting with regards to, let's say, if you own a residential property, right, and you're sitting on a $3 million property, and you want to sell it, but you don't want to pay the gains on it, and why would you sell it after a certain point? Well, a lot of folks, when they're buying residential real estate to rent, what's happening is there's going to be a depreciation recapture, right? So there's tax advantages, you know, you know, through the years of owning that, that you can depreciate and, you know, offset, you know, apply that to taxes. Now when you sell, there's a recapture. You know, all the benefits that the government gave you over time, they're going to want it back, you know, when you sell. So it's factored into the overall tax when you sell capital gains plus the dividend recapture portion of it, right? I won't get into details in terms of how that flows, just know that this is the case. And so a lot of times what folks will do to avoid just the basic capital gains tax is a 1031 exchange. And that's fine. You get 1031 exchange where you buy, you know, you sell. You have certain amount of time to buy another property. You're actually transferring the assets to that other property. And you you know, the game of musical chairs continues. You can also consider doing a 721 exchange. A 721 exchange, really, what happens is you're transferring into into a REIT. You know, you're putting your property into a REIT that allows for this. And what happens over time is you can convert your contribution into shares of that REIT. In doing so, you really negate out that that, you know, it's better than a 1031, because effectively, you've canceled out the tax on the capital gains, but the dividend capture. You'll never have to do it again, because the moment you turn it back, you turn your participation into RE shares. Voila. There you have it. That's, I said that in like, a minute, like, if it was very easy, it's somewhat complicated, but there's some REITs. They're like umbrella trust rate, like up REITs. They're called in which they allow you to put your shares of whatever you have, whatever property you have, into a vehicle like that. And that's something I would look into if you're thinking to deflect your, you know, you know, reduce your taxes considerably on the sale of a residential rental property, if you will. All right, so I would really, you know, look into that if you're an investor that are doing that, again, not a recommendation or not. We're not tax professionals. I don't want to give that sense, but there are options that allow you to transfer your property into into, effectively an up REIT, if you will. Now, if you own a $500,000 property, yes, a REIT is not going to listen to you, hey, yeah, they're not going to want to, you know, incorporate your holding into their portfolio. But there are facilitators that can do that, and they'll aggregate a bunch of single properties for you, for you and other investors, and create a syndicate for a REIT to then transfer that into. So that's something that would make sense to look into as well. What are the return metrics around that? Again, residential real estate, you're looking at seven 10% commercial real estate, six to 9% public reads eight to 10% those are kind of the rate of returns when you factor in the dividends, when you factor in the rental income and the like. And the correlations to equities is usually point five below, which is a nice pop there. And the correlation. To bonds is usually hovers around point 1.2 so that's pretty good as well. All right. Now with that, I'd like to touch base a little bit Wade on infrastructure, because a little different than real estate, but it's it's something tangible like real estate, so I think it's interesting from that point of view.

Wade Pfau 30:20
So this would be like roads and canals and railways Exactly.

Alex Murguia 30:24
There's a lot of people think of it like, you know, Munis. Munis, actually a lot of times are used to fund infrastructure plays like tolls and things like that. But you can actually invest in the toll companies and the like. And why would you want to do that well again, it provides stable inflation link cash, cash flows from essential assets, right? A long duration as well. You can get, you know, you don't have to redo this every year, similar. So you're getting these you have to, you know, hold them for a while, but you're getting that longer play, yield, focus, investments, resilient to economic cycles. To some extent, it's not like these are infrastructure plays. People still have to drive around. People still have to use the internet, right? If you have these, like servers and the like,

Wade Pfau 31:12
include, like, sewer lines and electrical lines, 100%

Alex Murguia 31:15
you got it. Yeah, you got it. It's not just like a residential property, but, you know, Tang a sewer line is tangible, right? And so is it ever is, but it's, it's one of those things that, yeah, you can it's, it's investable, and there's often government regulated but contractual revenue models from that, from that vantage point so that, to me, provides real asset diversification, and somewhat to the degree that they're government regulated and they're needed, you can make the case that you do have some downside protection over it simply because these are you need it to function as A society. All right. Now, what are some, some places where you can look into with regards to this? Well, Nuveen and Manulife, they get into timberland and farmland for investment institutions, timberland and farmland are very interesting, simply because these are, these are hard assets that are, they kind of regenerate, you know, especially with regards to timber and the like. And we'll get into timber more when we get into commodities. But this is something I'm personally a big fan of, simply because it regenerates, you know, as opposed to just like a metal or something like that that's used to make other things. These are things that can generate in and of themselves. And so you have Nuveen and Manulife. And here is the lease they'll buy the farmlands, lease it to farmers these big, you know, big Agra they'll lease it. They'll lease it to them. So you're effectively leasing the farmland to farmers. You're leasing the forest to the timber companies and the like. And you have part of that. There are some companies that do that. There's some public farmland REITs, such as farmland partners. There's Gladstone land, and the ticker symbol on that is l, a, n, d, which is a create, kind of pretty cool. Again, not endorsements, just if you're doing due diligence, this is where you can start looking into if this is something that's of interest to you. But as you can see, there really are a lot of things out there that in first at first glance, you would have never thought when constructing a portfolio, if you wanted to start touching upon these sort of natural resource exposures, you have acretrader Farm together. Those are crowdfunding platforms that didn't exist years ago, and all of a sudden, through technology, they can start bringing in buyers and sellers in a way that's actually quite compatible with investing and diversification and scaling out and not being so much so concentrated on one or not being left out because you don't have $100 million to spend on

20,000 acres of farmland. You know, water asset management you have and water research. You know you have investment rights. You know you have this now, investing water rights. So expand the purview of what could be natural resources beyond just, you know, we talked a little bit about infrastructure plays, but there's also things like timber, farmland, water rights, etc, which are interesting, especially when you consider water rights and and getting into the whole investing for your values kind of thing. There's companies like EcoFin that offer, you know, public investment in water rights that you may want to look into. And frankly, everyone talks about oil, but you know, the resource we all really need would be something like water. And so you have a lot at play that could be investable in a very cool way, and Wade that, that sort of concludes where I'm at with regards to REITs and real assets from a from a portfolio standpoint. But if you see what with. Things do at the end of the day, you want to create a portfolio that's giving you return, obviously, for a certain given level of volatility. Ultimately, and when you're looking at a portfolio, you can invest in many things. You may be listening to this podcast thinking, oh, I want to invest in every single one of those, because it makes sense, all of these things individually are credible. But that doesn't mean you have to invest in all of them, right? You have to look at your portfolio, what's it already exposed to, directly or indirectly, and see if the addition of any of these add anything from the standpoint of return per unit of risk for the portfolio. If it doesn't, you don't need it. Effectively, what happens is the portfolio becomes redundant, and to some extent, entropy takes over. And it may be good in day one, but by year two, it's a big hot mess, because you got things now all over the place. You don't know how things are interacting with something else, and it's just not worth the aggravation. But these are things that merit consideration within a portfolio. It's just I don't know if it merits consideration for your portfolio, and that's the rub. And from a diversification standpoint, the name of the game is return per unit of risk, because if you are taking, if you're a total return investor, and you are taking distributions from that portfolio, it behooves you to make sure that you can, to the degree possible, get a stable enough of a return series that allows you to take distributions continually way.

Wade Pfau 36:43
Yeah, makes sense to me that that sharp ratio idea return per unit of risk, and how these assets contribute to the overall diversification of the portfolio is the really important consideration when we're talking about alternative investments. So I think that brings us to the end of the material on the real estate and REITs and commercial, residential real estate to be more specific infrastructure, but we do still have more to talk about with the commodities, natural resources, so we'll pick up there again. And this episode's airing the day after the YouTube Live session. So we won't have a special question of the week this week, but we will have some upcoming episodes where we really dive into all the questions we received that we're not just able to answer during that live session, but the questions we also didn't have time for during that live session as well. So please stay tuned for that over the summer, and thank you, and we'll catch you next time on retire with style. Take it easy, everyone.

Speaker 1 37:45
Wade and Alex are both principals of McLean Asset Management and retirement researcher. Both are SEC registered investment advisors located in Tysons, Virginia. The opinions expressed in this program are for general informational and educational purposes only, and are not intended to provide specific advice or recommendations for any individual or on any specific securities to determine which investments may be appropriate for you. Consult your financial

advisor. All investing comes with the risk, including Risk of Loss past performance, does not guarantee future results.