Synergize Podcast Transcript – Steph Guild Episode

Guest: *Steph Guild, Chief Investment Officer at Robinhood*
Hosts: *Ryan Neal (Editorial Manager) & Bill Coppel (Chief Client Growth Officer), TradePMR by Robinhood*

Ryan Neal: And we're back on the Synergy26 conference hall floor here in Washington, D.C. And we've got an awesome guest stopping by the podcast booth — Steph Guild. She is the Chief Investment Officer at Robinhood. Steph, thank you so much for taking some time with us.

Steph Guild: Thanks for having me. It's a great conference.

Ryan Neal: We're glad to have you.

Bill Coppel: Yeah we certainly are, particularly with your opening line this morning at your panel, I loved.

Ryan Neal: Yeah it got reactions.

Steph Guild: Oh absolutely, I had some claps and some **gasp noise**

Bill Coppel: You know I wanted to share it with our listeners because I think it's where we want to kind of take part of this conversation, which is, you made this bold statement: "Modern portfolio theory is dead."

Steph Guild: Yes, I did. And index investing went with it.

Bill Coppel: I felt the air rush out of the room.

Steph Guild: I mean, there are things to take away from modern portfolio theory — it teaches you that investing is a trade-off between risk and return. But if you take a step back as to what's been shifting in the world, I think there are four tailwinds that were really supporting the modern portfolio theory framework and index investing and only index investing. If you think about what ten-year interest rates have been doing since 1981 — they went from 15% to 0.6% in 2020. Consistently, the cost to borrow money just fell. And that goes right to the bottom line. We saw interest expense as a share of EBIT, or earnings, just drop precipitously over that same time period. The other tailwind is tax rates, like corporate tax rates fell continuously over that time. And that contributed to net margin growing. The Federal Reserve actually noticed it. They did a paper in April 2023. They said 42% of corporate profits from 1989 to 2019 were down to those two things: falling interest rates and falling corporate tax rates. So if you think like, CEOs could just keep the business going and they had improving margins over those time periods.

So there are a couple of other things. Deficit. The US deficit has been growing, and it kind of didn't matter — it's expected to continue to expand. And I do think it’s getting to that point where it starts to matter. But because it's so big, it means we have so much supply of debt, it’s going to be hard to get interest rates and tax rates down from here. And then the last thing is the generational shift that's happening. Baby boomers — the last ones will turn 65 in 2030, and most of them are turning 65 now. You start seeing, the ones that aren't well off, that aren’t going to transfer wealth, are going to start spending what they've saved. And they own 50% of retirement assets — and 50% of retirement assets are invested in indexes. But those tailwinds are going to go the other way. And lastly, I didn’t put it as an official tailwind but companies themselves — think about how much stock buybacks contributed to the market, particularly from the tech sector. Now what is the tech sector doing? Spending on AI and infrastructure, everything you can think of. That's just a shift.

Bill Coppel: A lot of them were just printing money and sending it out to shareholders. And now they're reinvesting that money heavily into artificial intelligence and other infrastructure.

Steph Guild: Exactly. Even Google is now issuing shares. That's exactly right. So there has been a significant shift.

Bill Coppel: I have to chuckle when I think back to those days of 15, 16, 17% interest rates. We still had clients complaining it wasn't enough money. And now we go the other way and everybody wants a 1% mortgage again. And everyone thinks mortgage rates are high. In retrospect they’re actually very low right now.

Steph Guild: They’re not, I know. I used to love going to – I had the savings passbook as a kid and I used to love going and having them update it because I got 10-plus percent interest rates on my savings account.

Ryan Neal: Obviously no investment advice being given here — but for a rookie investor like me who doesn't know much about this, how is this changing the playbook? What does this mean going forward for investors or for advisors?

Steph Guild: To me, it means that owning index funds itself isn't bad. But I think you want to start branching out, because I think index investing is really investing for the last decade. Whereas the index over time is going to shift. And so it's better to get ahead of that and start investing in single names, even in private companies — because so many of them are now starting to go public. I think you're going to find opportunities that either play a very small role in the index or aren't in the big broad-based indices. And that's where I think you want to spend some more capital to diversify away.

Ryan Neal: Are we starting to see that at Robinhood — are customers starting to act like that?

Steph Guild: I think that's the other thing, it’s like the customers at Robinhood have been acting like that. The participation in direct stock ownership has been on the rise. And I think you'll see it continue as long as markets are okay. Most of our customers only use ETFs to buy on a big dip — otherwise they are playing the themes and the stock stories. And I think that's where you kind of need to add to thematic single stock baskets.

Bill Coppel: With the cycles so short today, you're seeing some enormous shifts. And a lot of investors at Robinhood have actually done pretty well, creating some unusual wealth for themselves. I know that you run strategies for Robinhood Asset Management. What are you seeing in terms of the behavior of some of these early successful investors and how they're using strategies to begin to take something off the table and diversify a bit?

Steph Guild: Yeah, I think you see them splitting their money between playing it themselves and using managed strategies — it kind of depends on the person. But I've seen a couple of things. One is they know they should be investing. They want something they can relate to, so they can look at their account and say "I own this stock" rather than "I don't know what's in this fund." We leave messages for them as we make changes in the portfolio so they can be guided along the way — and they learn along the way too. The other thing we've seen is the more active traders on our platform use it as idea generation, where they're playing their own portfolio and then splitting their money with us, saying "Oh, that's interesting — let me buy more of that." Because we still maintain diversity. We're not buying 10% in one name. We're being diverse about it. And if they're willing to take even more risk than that, then so be it.

Ryan Neal: One thing I'm curious about looking forward — if you put your goggles on for next year — what's the thing you think will dominate the investment conversation?

Steph Guild: I don't know if this is a good next year one but, I think the supply issue around raw materials is known, but not really fully understood in terms of the repercussions it has. We've had this conflict in the Middle East going on — it's not solved. And even if it gets solved tomorrow, you can't just turn everything back on like it's a light switch. It's been an issue for a while, and consumption is going up, not down. So I do think there's this kind of lack of care for what that actually means. And so we've been using materials and energy exposure almost as a hedge in our portfolios versus what bonds may used to be. And I do think you're going to have a period — maybe next year or sometime this year — where everyone's worried about a bubble. I don't think it's a bubble, but things can get temporarily over their skis and then you get a pullback. And those are times to take advantage of. So those are the two things on my radar. I'm kind of always wanting to take a couple of chips off the table, just in case the DJ stops playing music for a little bit.

Bill Coppel: One last question I want to ask you — your role at Robinhood Asset Management and Chief Investment Officer just expanded a bit with the introduction of the Robinhood Advisor Network, which is a product and service coming out of Robinhood Asset Management. As a leader of that group, share with our listeners how you see this unfolding — acknowledging that there is an opportunity for some of our clients needing advice from an advisor.

Steph Guild: I think it's really exciting to be able to deliver this. We're kind of in charge of the more client-facing part of it, and I feel very protective of our client base — making sure we have great, tenured advisors on the platform, because we are handing them our customers, our babies in a way. So we do the due diligence to make sure that these are people who will take care of our customers. What's great about it is that our customers are used to being able to scroll through things and make some decisions without feeling like they have a lot of commitment upfront. This allows the customer to directly decide rather than having a lot of frictional steps in between. And the more we can build that bridge — especially because our customer base is getting a bit older, with rising average age and rising average wealth — the more wealth you have, the busier you get, the more you need someone to help guide you. That's why I'm very excited to have that connection.

Ryan Neal: Well, Steph, one thing we do on the podcast as we wrap up is leave our listeners with one piece of actual advice or information they can take back with them. For those who couldn't make the conference, what's one thing from your presentation you'd like them to know?

Steph Guild: I would say at the highest level: you need to start thematic investing beyond just the broad-based index funds, because I think you're going to leave opportunity on the table. So make sure you start thinking about that for your client base.

Ryan Neal: Thank you for stopping by the podcast, Steph. We appreciate it.

Steph Guild: Thanks for having me. It's been a great conversation.

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