Andrew 0:05

Hello, and welcome to the JGUA Financial Commentary Podcast. I'm your host, Andrew Baron. And in this special episode, I talk to our founder president and indeed namesake, John G. Ullman to tell the story of the firm and how he grew it into what it is today. But first, a short disclaimer. The contents of this podcast are strictly for informational purposes only and nothing said should be taken as investment, tax or legal advice. Any references to specific securities are for illustrative purposes only and are not meant to be taken as recommendations. Any strategies discussed may not be suitable for the listener specifically and JGUA encourages consulting with your advisor before implementing any strategies to ensure they meet your individual objectives. And with that, welcome to the podcast, John.

John 0:52

It's a pleasure to be with you today.

Andrew 0:54

Before we get into the history of the firm, I think we should mention a little bit about where we are today. We are a fairly large firm of credentialed professionals with designations including CFP, CPA, CFA, MBA, JD, and more. We serve over 900 client families across 40 plus states. We have offices across New York State, including Corning, Rhinebeck, our corporate headquarters in Big Flats, and an affiliate office in Rochester. And with that, can you provide a little bit about how you personally got interested in finance, John?

John 1:31

Gosh, it goes back a long, long time ago. And many of the people who might be listening would not be very familiar with the time period that I'm going to mention, which is the 1950s. And technology was in a totally different arena, there was no internet there. There was very little knowledge about investments, it was really limited to a few that had interest in the area.

As a youngster, I was an avid sports fan, and really wanted to play baseball, like as a career, except sometimes you have skills, sometimes not. We lived on Long Island town called Merrick in Nassau County, and my dad commuted three hours a day from that area, that's not unusual. So we come back from a long summer day. And as a very young person, I would grab his newspaper, which got printed in the afternoon. And I couldn't wait to read about the New York Yankees and couldn't wait to see how Mickey Mantle and Yogi Berra, and Moose Skowron did in terms of their batting, and would just memorize those. So at a young age, people would sometimes in the community get a little kick of this five year old or six year old who seemed to know a lot about the New York Yankees and some of the statistics. But this became somewhat frustrating because dad was hoping to just relax after a busy day.

So one Christmas, my parents were actually darn smart about this and understanding that that knowledge was extremely limited about investments at that time. And I think folks who did not go through that era and have been in the more recent 20 years would be shocked how little information had gotten around about techniques and other things in the investment field. But my parents for Christmas, wanted to get me, my dad particularly, off the sports page, partly so he could read it when he got home. And also because at that age, I did seem to show some very strong capabilities in math.

So they decided to buy me one share of stock in a company called Texas Gulf Sulfur. They paid $11 plus a commission for the shares. And at that time, Texas Gulf Sulfur was paying a 25 cent dividend per quarter, which is $1 a year. That would be $1 on $11, roughly a 9% rate of return, which in an era of low but not as low interest rates is now was very much out of what would have been expected. And then these checks would come in every three months. And this was not by computer because there were no computers. They were hand typed or stenciled checks, and it would say something like my father's name was Gerald H. Ullman, custodian for my name and New York State if a minor act, etc., etc. home address 25 cents. 25 cents in the 1950s was worth more than 25 cents today. But it wasn't a lot of money. We had to run down to the bank to deposit it and add it into my savings account, I'm sure my parents thought it was really cute. But by the third or fourth time, I think they had some second thoughts.

While I get back to the 9% dividend, what might have been expected happened, and they cut the dividend to 10 cents a quarter, or 40 cents, which was still a three and three quarter, or 3.6% kind of dividend, which was still relatively high. But the checks that came in that we had to rundown of the bank to deposit were 10 cents. Well, if one could memorize baseball averages, memorizing stock prices, was not much different. And that times I just memorize numbers. So if somebody said, what was AT&T selling, or what was IBM selling at, I would generally have known and people got a kick out of that at age six or seven, I guess.

Well, as time went on, I ended up doing a little bit of reading, when I say a little, a little not significant. And I knew a touch more than memorizing numbers, that after that stock, I ended up selling stationery as a young person and had newspaper routes. And I had saved a few hundred dollars over a period of maybe a year or two. So dad took me into the city. And we met with a stockbroker, my dad was not an active investor, but he had a contact. So we went in, I was nervous as could be, on the train as the young person who bought five shares of Phillips Petroleum, in Bartlesville, Oklahoma at 51 and five eighths. That was most of my money, my dad took me out to lunch at Schrafft's, just a giant treat for a young person. And I was so excited. We stopped back at the broker's office that afternoon, and bought AT&T shares. Well, a period of time later. This was later in 1960. When I was about 12, Castro had taken over Cuba. And there was some thought that he might take over some of the companies. And AT&T has had a fairly large business presence in Cuba. But I got really worked up and whatever I called the broker up and sold my two shares. Within a day or two, Castro took some actions and the stock went down five or $6 a share. So I ended up saving $10 or $12. But I was ahead of the market at that time.

Andrew 7:40

When did your interests shift from stock trading to advising others?

John 7:46

By the time I was in high school, there were things that happened to people in the community. And it was a close knit community. I ended up advising on a very basic level. Some individuals who had me, you know, I shared some information, they knew essentially nothing about investments. And I knew a smidge more than I did when I was five or six, not very much.

By the time I got to college at Johns Hopkins University, I was doing some more of that. And then with graduate school at the University of Chicago that help to other people increased. And I, I became somewhat knowledgeable, doing investment research on my own, and I had done a fair amount when I was at Hopkins. When I came out of graduate school, this was clearly what I wanted to do. And I looked at other companies where I could work. And at that time, this would have been 1972. The areas for someone for investments included working in bank trust departments or insurance companies for investment research, being in product sales, like being a stockbroker, or going into investment banking. I did not find the level of depth in the investment research area that I was hoping to find. I'm an accountant not a salesperson, so that wasn't gonna work. And that did not fit with very values oriented approach that I felt that what I wanted to do.

Andrew 9:28

What did you and your wife Bobby decide to do since you couldn't quite find what you were looking for right out of school?

John 9:34

We decided that I'd get a job in a corporation in finance, and was fortunate to get a lot of job offers. The one that was most unique was that Corning Glass Works. Now Corning Incorporated, basically became the acquisition guy. I didn't have a three hour commute like my father did and some of the other locations were urban, and with Bobby's teaching we probably would have wanted something more suburban, she was an outstanding elementary school teacher. And geography was much less of an issue. So I came to Corning, I ended up as a hobby helping a lot of the senior executives.

Now I'm fairly knowledgeable about investments in finance and planning, and had intended to open up our own business, it was not a secret, it was well discussed.

I had five jobs in Corning, in six years. My only emotional birthday was number 30. Because I knew some really talented people at Corning, who were entrepreneurial, but when they ended up not moving into that kind of field, and they started having families and their ability to, to change diminished dramatically. And I said to myself, I'm gonna do this, I need to do it now.

I've been helping as a hobby without any kind of financial payments. It was my pleasure. Number of Corning executives knew of my intention. So I approached them and said, I'm going to go do this, would you be interested, as investors and as board members, so in 1978, I incorporated in August, after everybody had agreed all these folks said we're in and we ended up with seven directors, I'm the only employee, started the firm.

And the idea was based on things that I had thought about when I was in high school, a concept which was pretty unique, then, somewhat now of having a comprehensive services, values based, essentially no conflicts of interest, selling nothing, based on ethics, and trust, to do essentially everything without limit that's financial. That time includes managing assets individually, doing tax returns, reviewing insurance, making advice, not selling anything, getting involved with all sorts of financial related projects, which include will structures, and cash flow studies and a myriad of other things.

January of '79, I worked from the house initially, we ended up with a tiny office, the rent was $35.50 a month, including utilities. It was initially me, but then there were a few other employees that joined. And then in August of 1980, we moved into a larger space down the street. And we still presently have it. It was at the time, the Columbia bank building at Market and Cedar Streets, we had on the second floor, two small offices, and what was the bank's closing room for mortgages across the hall, probably about 40% of that floor. So we ended up adding more space. And then there was a law firm that was at the other end of the hall. And when they left, we took that space, then we moved to a total of four buildings, going west to east and ended up having the walls taken down to have walkways going across. And we did not have the downstairs of the second building. And we ended up buying the first, third, and fourth buildings. And we have that space today. So that's how it got started. Very fortunate. It was a dream that came true. And we have had the privilege of working with clients for very, very long time periods and multi generationally. And the idea of being part of the families has been a real exciting and feel like we've made and had an opportunity to make a difference in countless lives. So that's kind of summary of how we got started, Andrew.

Andrew 14:04

Can you describe our firm's investment philosophy?

John 14:07

We developed our own individualized modeling and software. Our approach is very, very mathematical. We look at percentages in different sectors, conservative, high quality and speculative. Conservative is substantially out of the general stock market, cash and equivalents, investment grade bonds. And we also put certain utility stocks in that category. We have ones that are in foreign currency denominations in Canada, Australia and New Zealand, but they're very high quality credit. We have ones that the rate goes up by specified amounts over time. We have others that are inflation protected, and we have a firm minimum of 50% the only exception that we have, we have an institutional account. And we have an equity fund, a balanced fund, basically, and other choices. So those are almost like a form of mutual fund that people can take a little of this and a little of that, you know, the equity fund is equities and the bond fund bonds, and people can do their own mix. But with that, in the sole exception, every account that we manage needs to have at least 50% that's in the conservative category. And that's worked out through a financial planner, on the firm as an advisor.

Andrew 15:39

What are some of our firm's key industries of interest?

John 15:42

Right now we're focused on certain sectors, infrastructure is very likely to finally get major funding. And if the economy runs into rougher times, that will probably increase. We think certain areas and healthcare with proprietary pharmaceuticals and devices. Third area in this country with all the innovation, that's here is technology. Now, we'll tend to look for things that look more cost effective, that are not outrageously costly. So we have a value based style that has served us and I think our clients very well. We have foreign investments, those are not the multinationals that would fall in the regular categories, that they would be things like emerging markets, or country funds, or individual issues that serve a particular country or region. We have a utility category, which we've increased significantly, as an alternative to longer term bonds. But with a significant majority of those conservative investments being high quality and short term, with a minority being in utilities and some of the bonds that I mentioned earlier, that would have some additional risk, but they are a minority piece, so we call that a barbell strategy. Which we feel very good about in terms of trying to have lower levels of risk for a given outcome that might occur. And we have done that. So it's a very mathematical targeted approach. And I think it has served us and particularly our clients very well now, as we evolve this over 42 and almost 42 and a half years,

Andrew 17:36

Given your decades of experience, how would you evaluate the few giant corporations that are currently the big drivers of the stock indices?

John 17:46

One of the studies I did for Corning, when I first came was that the chairman was looking for an assessment of Corning shares. And while I was a research analyst, I didn't know the company very well. And I remember doing a study and partnered with a business school at Cornell to get some of the data from their systems, which looked at companies from 1965 to 71. That had high for those people familiar price earnings multiples, always over 20. So if a stock was at the $2 a share in a year, it had to be at $40 and up the whole year to stay in and it went to 39. It would be under 20 for part of the year. This would look prospectively in January at a company and kind of retrospectively in December, because I used a calendar year and they had to do it for six years. There were 16 companies that met that requirement.

So Corning was one of the world's best thought of companies at that time. And I'll just try to remember a few I think five were drug companies or healthcare American Hospital Supply. American Home Products, Becton Dickinson, Merck, and Johnson and Johnson from recollection, companies that were in there.

In addition, besides Corning, which was the sixth you had Emery Air Freight, Polaroid, 7, 8, Xerox 9, and 10 3M 11, Coca Cola 12, Eastman Kodak 13, Texas Instruments 14. And Avon I think was on there 15. Hewlett Packard might have been the other ones for 16. If you look back at those companies about 50 years later, Xerox, well Eastman Xerox is a shell of what it got into. IBM is no longer the leader that it had been in that era and though, it's still a very large company.

Eastman Kodak and Polaroid went bankrupt. Hewlett Packard is a shell of what it was in terms of leadership technology. You know, I think Corning has done well most of the healthcare companies either merged and have done well. Texas Instruments has been successful. 3M, like Corning been a little more cyclical, but they're very strong company. Coca Cola has dominated. Emery Air Freight has had its ups and downs, it's been a very successful company. But if you looked at some of the market leaders in there, some of them are gone, and didn't survive.

I did a comparable study with a different ratio in the 1950s. And you found like US Steel, I did with the different multiples so Corning came in, we had a greater number of companies. But there were a lot of cyclical companies at that time. Also, healthcare companies were strong. So if you look at the Amazons and the Apples, the Netflix's the Google's, Facebook, the FAANG stocks, and some people with Microsoft in there as well. The question is 20-30- 40- 50 years from now, will they be in the same leadership positions? It could be, but historically, that's not happened. And every cycle can have differences to it. For example, many remember the dotcom 1997 to 2000, the market really took off for many of these stocks and then it crashed.

And the NASDAQ index, which is not totally technology, whose bank stocks and other companies lost 78% or more of its value, diversified portfolio. And that's the largest index now in two years. So people who had a million dollars in it had $220,000, or $1,000, $220. Corning as a company that I think has been absolutely outstanding, but the stock and not part of NASDAQ and the New York Stock Exchange went from about $113.33 to $1.10. So if you bought it at $113.33, or $1.10, it made a huge difference, if you bought it at $1.10 in 2002. You know, about 19 years later, the stock is up about 33-34 times what one would have paid at its bottom. Somebody bought it $113.33 in 2000. They'd be down almost 70% in value 20 to 21 years later. And I think people underestimate the volatility of the market, people have an expectation how much you're going to make in the market. And they often would have said in different time periods about 10% a year. Well, there's been some very strong periods. But there also have been some very significant other periods. So we've just gotten through second momentum period from about 2017 to 2020. I mean, here we have this tragic, natural disaster of a pandemic. And since about the 23rd of March, the stock market has been extremely strong. So you know, are we in a bubble, that's going to cause a real sell off? I don't know, it happened in 2000. But I think people need to be respectful if they've put their life savings into different markets. This is not Las Vegas and having balanced portfolios is respecting the hard work, dedication and effort that's gone into the market. And I think too many people are far too casual about their investments and being disciplined. If markets up and our amount of funds in the market increases beyond our thresholds, we end up selling to get back into that guideline and don't let the success end up with a disproportional amount of exposure. So I do think we're in a very interesting and vulnerable time period going forward. I think a lot of Americans have expectations that all of these support levels are just going to continue.

Andrew 24:30

What's your take on the future of the national debt, John?

John 24:34

We're not political in our views, we're looking at economics. And it's one thing to put trillions of dollars in a national emergency when it's needed. But basically, we're printing money at the Fed, not that it's being loaned to other countries or whatever. It's really internal. And I think many Americans would like to see that continue. From our standpoint, it's important to have a balance between spending and revenues. And if we don't, I think there are tremendous risks that are not being seen by many now about what's going to happen, eventually in interest rates, inflation and the US dollar versus other currencies. And we have in Social Security, Medicare, the Affordable Care Act, and Medicaid, other programs like these four in particular, that are not sustainable with current funding. And the more deficit that we have, the higher eventually the interest payments are going to be. We have a $30 trillion deficit. And we ended up with 5%, higher rates over time, and now, that would add a trillion and a half dollars before some offsetting tax collections additional deficit. And you're looking at over a trillion dollars a year. Now, excluding all of the Cares Act and other government support that really has stabilized the country. And we have great apprehension for the fiscal irresponsibility that people are willing to go through because they don't want to pay higher taxes. Down the road, we think consumer spending is going to be affected, because there's going to have to be higher taxes. But ultimately, when we put together infrastructure programs, user fees, and other things are going to come into it. And I feel like the likelihood is that those programs will not be adequately funded. And the government effectively is going to be further subsidizing a lot of infrastructure programs with roads, bridges, tunnels, water, that will be more of a deficit. And we need to find a way to be paying for most of what we're spending over a reasonable time period.

So industries that we're interested in right now, absolutely include infrastructure, tougher the economy is the more money is likely to be spent. Also always looking for some areas in technology that are in fields, including 5G, including batteries, and cyber security as examples. And artificial intelligence, like IBM is doing a lot with artificial intelligence, and Watson. And they're doing a lot more with the cloud. And they're not nearly as expensive, as many other companies that are just really, really costly. So we're interested in finding firms that have good potential, and the valuations can justify it.

Andrew 27:49

Do you have any specific areas of concern for investors?

John 27:53

I think areas of concern would include urban real estate. Many people, I don't have numbers that are leaving the cities, they are working remotely. And the cost of residences in the city, for very small units, obviously, is much higher than other parts of the country. And without having to work in the office at all, we would see, you know, people leaving that high cost area, and a lot of the real estate is highly levered for retail, we've had bankruptcies of many companies very sadly, JC Penney, Sears, effectively, Brooks Brothers, Lord and Taylor, Neiman Marcus, Pier One are among the casualties that have occurred, many of the stores may stay open, but some are going to close. And you know, that's going to affect real estate as well. So I think you're going to see more people moving remotely, remotely, can be close by and out of the city, so worried about some levels of consumer spending, as well as certain areas of real estate. And the pandemic is going to energize more R&D. And I don't think the federal government wants to pay that itself. And if they don't have enough profit margins, these companies, it's going to really stop innovation. And again, technology that's reasonably valued in some exciting areas, but it's going to be fascinating to see what happens with drones and deliveries, with communications. Artificial Intelligence is wide open, and how many things are going to get done, you know, in that way, and of course, technologies that are going to improve communications like 5G, and there'll be many, many more innovations. The US in particular and others in the world are brilliant in a lot of the developments and we're gonna see a lot of exciting new technologies that are going to come across and will change things.

Andrew 30:07

Thank you so much for sharing your time and your story with us.

John 30:11

My pleasure.

Andrew 30:13

To everyone in our audience, if you have any questions, please send them to info@jgua.com and please visit our website for additional content. And with that, everyone, stay smart.