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In a **WEALTHTRACK** exclusive, T. Rowe Price's Brian Rogers shares the investment lessons learned over a three decade career running an award winning mutual fund and a decade managing the firm and its investment strategies. Near the top of the list are why humility is so important to successful investing and why over confidence is an investor's greatest challenge.

Brian Rogers
Chairman & Chief Investment Officer
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CONSUELO MACK: On this week's WEALTHTRACK, investment lessons from a great investor. In a rare interview, T. Rowe Price's Brian Rogers shares 35 years of experience, 30 at the helm of the award winning equity income fund, next on Consuelo Mack WEALTHTRACK.

Hello and welcome to this edition of WEALTHTRACK, I'm Consuelo Mack.

Over the years I have had the opportunity to interview some of the most successful investors in the business, including Warren Buffett. They are all quite different but they definitely share some personality traits. I was reminded of one of them when interviewing this week's guest and when reading Mr. Buffett's most recent letter to shareholders.

One common characteristic is optimism. The 86 year-old Buffett has it in spades. If anything he seems to be getting more upbeat with age. Here's what he says about the investment environment in America : "Our efforts to materially increase the normalized earnings of Berkshire will be aided as they have been throughout our managerial tenure - by America's economic dynamism. One word sums up our country's achievements: miraculous." "From a standing start 240 years ago - a span of time less than triple my days on earth - Americans have combined human ingenuity, a market system, a tide of talented and ambitious immigrants, and the rule of law to deliver abundance beyond any dreams of our forefathers.

He goes on to say… "Above all, it's our market system – an economic traffic cop ably directing capital, brains and labor – that has created America's abundance…" "…Yes, the build up of wealth will be interrupted for short periods from time to time. It will not, however be stopped. I'll repeat what I've both said in the past and expect to say in future years: babies born in American today are the luckiest crop in history. "

No one alive, at least that we know of, has matched Buffett's fifty plus year investment returns but this week's guest racked up an impressive 30 year record with less than market risk, as well as shepherding a highly respected investment firm safely through some turbulent times including the financial crisis.

He is Brian Rogers, now Non-Executive Chairman of the Board of T.Rowe Price, a firm he joined as a portfolio manager in 1982. Until recently he was the firm's Chairman and Chief Investment Officer. In 2015, 30 years after launching the award winning T. Rowe Price Equity Income Fund he handed the reins over to a co-portfolio manager. During his tenure its 10.7% annualized returns just about matched the S&P 500's 10.8% performance but it did so with less volatility than the market, offering more protection during market declines.

Over the past 20 years and under his leadership 85% of the firm's funds outperformed their benchmarks over multiple rolling five and ten year periods. Rogers is a regular member of the prestigious *Barron's* Annual Investment Roundtable and was recently recruited to join the board

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overseeing Harvard's endowment, as he puts it, helping out the university where he received his undergraduate and business degrees.

I asked Rogers to share some of the most important lessons learned from 35 years of managing money and building a firm. We started with being an optimist!

BRIAN ROGERS: Well, as an investor, Consuelo, you want to think about the future. You have to appreciate that the long-term trend of economic growth is upward. There are seven billion people in the world more or less. They all want a better life for themselves and their children, and the progress of economies generally is from south to north over the long term, and there are many interruptions along the way, but being optimistic about the future is I think the basic ground rule for being an equity investor. You have to have confidence in the future. You have to assume a company will be able to grow. If you invest in the company, you'll benefit from that growth, and that's why I always feel like investors have to be optimists.

CONSUELO MACK: So through the 30 years that you're running the Equity Income Fund, I mean there were some major crises, one of them being the financial crisis of eight years ago. How do you apply that optimism during periods when everyone around you feels that the world is falling apart?

BRIAN ROGERS: Well, you try not to panic in the short-term. Over any 30 or 35-year period, there are a lot of ups and downs, and in the heat of the moment, in the heat of 2008 the one thing I always like to look back on and dust off if you will, was Jeremy Siegel's book, *Stocks for the Long Run*, because that gives you that long-term perspective that is really crucial for an investor to buy into.

CONSUELO MACK: Now he's been criticized a lot for that book since then because obviously there have been periods when stocks for the long run didn't pay off in a five, six, seven, even a ten-year period. In our relatively short lifetimes, how do you handle those periods when actually stocks don't do well?

BRIAN ROGERS: Well, we had the so-called lost decade from 2000 to maybe 2010 if you will. Think what happened in that period. You had the dot com bubble and crash. You had the biggest financial crisis since the Great Depression, and you basically broke even. So if you can have two serious periods such as those and still break even, that probably speaks to having a good long-term case, and so you have to think longer term even when the days are dark.

CONSUELO MACK: So Brian, speaking of optimism, looking back at your track record at the Equity Income Fund, 10.7% annualized returns, terrific track record, a lot of pros on Wall Street are saying don't expect those returns in the future. What is your view?

BRIAN ROGERS: Well, I think the future's a long period of time obviously. I think over the next several years I don't think investors will make 10.7 percent a year or whatever the

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number is. We're starting in early 2017 from an elevated level of valuation. It's likely short-term interest rates and intermediate-term interest rates move up over the next year or two, thus compressing the levels of market valuation. I think investors probably ought to be happy if they earn six to eight percent a year for the next five years. The long-term rate of return from investing in equities is between ten and eleven percent, but coming from current valuation levels, returns tend to be less robust.

CONSUELO MACK: Which leads me to another lesson that you've learned, and that is that everything is cyclical. So explain in retrospect why you can take advantage of cyclicality and that in fact that crises are opportunities. It's a very contrarian point of view.

BRIAN ROGERS: Well, I've always been a contrarian investor, maybe a contrarian person. So when you look long term at the rate of growth in the economy globally, it tends to follow a wave-like pattern. Now interestingly since 2009, we've been in a period of positive economic growth, albeit sluggish economic growth. So today begs the question, where are we right now in the context of long-term cyclicality? We're probably approaching a period of economic maturity, so maybe the next cyclical move at some point is going to be downward.
In periods of economic crisis, usually they coincide with periods of market crisis, and that's often times when you want to tighten your belt and make investment decisions on the buy side, acknowledging that over the long term that positive rate of economic growth will resume at some point. Even in the darkest days of 1981, '82 and '90, '91 and 2001, 2002, obviously 2008, 2009, you could almost always make a going concern assumption that the economy at some point would snap back. All the policymakers worked to do it, our political leaders, our central bankers, our business leaders, and so you know there will always be a rebound whenever there's a downturn.

CONSUELO MACK: But right now, as you said, it's a mature economy. We've had an eight-year bull market. I mean another lesson that you've learned as well is that price matters a lot. You've written that it's a determinant of investment success.

BRIAN ROGERS: Well, it's probably not a time to be aggressively bullish. A lot of change is going on in Washington, a lot of policy implications, a lot of economic implications of the new administration. From a valuation standpoint, let's look around markets, money market funds yielding one-ish percent, the ten-year Treasury yielding two and a half percent. Dividend yield on the S&P 500 about two percent. What will the growth rate in that dividend be over the next five or ten years? So my suspicion is we're in for a period of relatively low rates of return across asset classes. Money market assets will be safe but low yielding.
The credit markets have been in a 35-year bull market more or less, and in my view it's highly likely that the next five or ten years is going to be more challenging for fixed income assets. With rising rates, what does that mean for market multiples from a price/earnings ratio standpoint? So that's why I feel like the up side potential from the equity market is more subdued than it's been traditionally, and investors face the challenge of being satisfied with earning maybe six, seven or eight percent a year as opposed to ten, 12, 15 percent a year like

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has been the case over various periods in time. So we're in a low-inflation, low-return era is my hunch.

CONSUELO MACK: Still low inflation, low return. I mean we've had an incredible stock market rally. Animal spirits have been released. People are very excited about the Trump agenda. They're likening it to the Reagan era. What is your take on that interpretation of where we are?

BRIAN ROGERS: Well, I think the easy part was winning the election and the inauguration. Now comes the hard part; getting a series of legislative policies approved in Congress, tax reform, corporate tax reform, repatriation, an infrastructure bill. We're going to have to wait and see what all this means, and I think investors have been very positively inclined since the election. And it's harder to do than it is to talk about.

CONSUELO MACK: Which leads me to another lesson learned which is that you've said investment humility is important; that it's important for investors to be humble and that over confidence is an investor's greatest challenge. Why is that?

BRIAN ROGERS: I think when investors are overconfident about an asset class or a given security ...

CONSUELO MACK: Or a market.

BRIAN ROGERS: ... or a market, they are willing to pay more for it. Their analysis tends to be a little less rigorous. I always tell our younger investors that we don't know as much as we think we know because when you come out of graduate school and you hit your ground running on Wall Street, you think you know everything. Being over confident is really the enemy of good investment returns over the long term.

CONSUELO MACK: How have you protected yourself against becoming over confident? Have you made mistakes along the way that has taught you, Brian…

BRIAN ROGERS: Consuelo, we don't have enough time to talk about all of my mistakes. But I think observing people making investment errors when you're young really leaves an indelible mark on you, whether you do it yourself or you observe others. I think a thorough reading of economic history grounds you and prevents you from becoming a little too overconfident, reading about others' mistakes. Every day in *The Wall Street Journal* there's a new story about a fund or a small company or something else that's getting into trouble, and you learn a lot from that. You learn a lot from watching the mistakes of others and hopefully you learn more from their mistakes than from your own.

CONSUELO MACK: So what's interesting is that you describe yourself as an optimist which you are as an investor, but there is a cube on your desk that evidently says, "Doubt everything.

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Believe nothing." That sounds very cynical to me.

BRIAN ROGERS: I think investors get into trouble sometimes when they hear an investment story or an investment case, and they just buy it hook, line and sinker. That specific item on my desk is because one time the CEO of a utility company came into our office and said, "Our dividend is 100 percent safe." Three months later the company cut its dividend, so doubt everything, believe nothing. Be skeptical when you hear very bullish arguments and cases, and be a little bit wary of very flamboyant, very compelling stories.

CONSUELO MACK: Which is another one of your lessons learned. You just say avoid the "it" stocks, kind of the cult investments. That's along those same lines. If there is an "it" stock, if there is a cult investment then your guard should be up. Is that right?

BRIAN ROGERS: I think any company that gets too much publicity that is always on the front page, you have to be a little bit wary about that. The woman who coined the phrase "it" stock was talking about Enron 15, 18 years ago. It was the "it" stock. You had to own it. Everybody believed it. Everybody was over weighted in it. Everybody wrote positively about it, and look what happened, and there are always examples of that in markets, both in equity markets and also in fixed income and other markets, commodities markets. Today it doesn't feel as though we have any specific cases of irrational exuberance. It's just more that the overall market is expensive. I would have said two years in the biotech sector there was a lot of crazy stuff going on there, and the investor would have been well-served to look at all of that frenzy and take a step back.

CONSUELO MACK: What about the FANG stocks? So Facebook, Amazon, Netflix, Google, which actually dominated the market in 2015.

BRIAN ROGERS: Fifteen. They sold off a little bit last year. They weren't ...

CONSUELO MACK: I mean is that kind of a craze?

BRIAN ROGERS: Those handful of companies are doing very well fundamentally. The question the investor has to ask is, how much is priced in? I mean we all use Amazon. We all love Amazon. We're probably all on Facebook. I'm a relatively new Facebook user, but you have to ask yourself, what is the valuation of the company selling at, and what assumptions are built into its earnings outlook? In some cases you can make an argument that some of those companies are extended valuation-wise.

CONSUELO MACK: Do you want to make the argument?

BRIAN ROGERS: I would say they're somewhat expensive. At the same time, when fundamental earnings performance is strong or fundamental revenue performance in the case of some other companies without earnings, they're gaining share. They're doing very well

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fundamentally, so you want to be a little bit careful. One of my friends was a Wall Street strategist, and he often talked about how he had five generations of friends in hedge funds who lost their careers shorting Amazon. So when a company is doing well fundamentally, even if it's expensive, you don't necessarily want to make an extreme statement against it or extreme bet against it.

CONSUELO MACK: Brian, as a value investor or a contrarian investor, are there some stocks like an Amazon for instance or a Facebook or a Google that are so dominant that we all should own in our portfolios? Is there a compelling case to be made that there are just some stocks, companies that look like you should own them even though they're not a great value now or they're not a contrarian bet?

BRIAN ROGERS: I think there are very few companies, Consuelo, I would say one holds forever. When I look at my career over 30 years, my money management career over 30 years ...

CONSUELO MACK: Money management career.

BRIAN ROGERS: ... there were probably three or four out a hundred at the end that I had owned at the beginning.

CONSUELO MACK: Did you know that going in? I mean did you recognize ... ?

BRIAN ROGERS: No, I didn't know that going in. I mean one was Exxon.

CONSUELO MACK: Which you owned for 30 years.

BRIAN ROGERS: Forever. One was basically the predecessor company of JPMorgan which you can trace back to Commercial Credit in Baltimore back in 1985, '86.

CONSUELO MACK: Wow.

CONSUELO MACK: Well, Johnson & Johnson because I had actually asked you about this.

BRIAN ROGERS: Johnson & Johnson is probably the other one.

CONSUELO MACK: The last interview that we had, and again Equity Income Fund. Those are dividend payers, and so that was a classic, the kind of companies you wanted to own in the Equity Income Fund. They represented that because ...

BRIAN ROGERS: The perfect investment for us, Consuelo, was always a company whose stock price goes up obviously, whose dividend goes up at least the same pace. Therefore, their dividend yield stays exactly the same, just a higher price with a higher dividend. That was

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always the perfect series of investments, but that's a relatively small number out of hypothetically a hundred holdings in the Equity Income Fund. So that's why I say there are very few companies you can buy and hold forever. Warren Buffett would say maybe Coca-Cola might have been one or whatever, but there are very few companies that fit that bill.

CONSUELO MACK: So that's interesting. It kind of would lead me to another question for you.

CONSUELO MACK: Active versus passive debate. It seems like we've reached a critical turning point where passive has really taken off, and in a low return environment people are looking very closely at fees. Has passive won that debate?

BRIAN ROGERS: Well, I think passive has won the fee debate. It hasn't necessarily won the performance debate. I think when I think back to 1982 when I joined T. Rowe Price, the share of passive in total U.S. mutual fund assets was probably single-digit percent. Now it's probably a third.

CONSUELO MACK: And growing rapidly.

BRIAN ROGERS: So huge growth, growing very rapidly over the last couple of years. The more money that's invested passively, the better skilled active investors can do because as correlations rise and the same money pours into an index, specifically the S&P 500, the opportunities to cherry pick and excel will increase over time, and probably one of the most fertile areas would be S&P companies 501 to 1,000, arguing if all of the money is flowing into the S&P 500, from plain old passive funds, passive mutual funds, passive ETFs, arguably that sector or that part of the marketplace which is very large will be valued much more highly than it might otherwise be, and there might be arbitrage opportunities to invest elsewhere. Active management is really hard, and we've done a lot of work looking at our company. We think we've done it very well over time.

CONSUELO MACK: I said in my introduction to you that 85 percent of the T. Rowe Price funds, you've looked back over the last 20 years, over five and ten-year rolling periods, have actually outperformed their benchmarks.

BRIAN ROGERS: And 100 percent of our asset allocation funds our target date funds, retirement date funds. So you can do it. You can do it well. The issue becomes what are investor preferences? Will every investor in the world decide to invest passively? If we're the last active manager standing, we will thrive. We won't be the last one standing. There will be others, but our game will be easier as more and more money flows passively.

CONSUELO MACK: So let me go back to the 85 percent of your funds outperforming their benchmark. Can you pick those ahead of time? Of course I'm thinking with my luck I'll be in the 15 percent that didn't, but are there determining factors that you can actually spot as an

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investor investing in a fund that you can tell this fund is probably going to do pretty well over the long term?

BRIAN ROGERS: I think it's hard to identify the 15 that won't, and I think looking at the 85 that did, the 85 percent that did, in advance it's hard to do that, and so there's a probabilistic assessment you have to make. Are you willing to take that chance that you'll be in the 85 and not the 15? I think 85 percent odds are pretty good odds if you think of the odds of investing in anything generally or the odds of playing baseball or kicking field goals or anything else. So 85 percent probability is pretty good odds, and we think we have a culture and an organization in place to perpetuate that, but there are no guarantees.

CONSUELO MACK: So the major argument for the advocates of passive investing is that, number one, they're very tax efficient because you're investing in an index which isn't being actively managed, and also that the fees are so low that it is such a high bar for active investors to surpass that. What's your response to that?

BRIAN ROGERS: Well, our response is look at our company and look at our data, and again there are no guarantees prospectively, but the opportunity to earn a higher return than an index if realized can have a really positive effect on the investors' fortunes, and even if it's 50 basis points or a percent a year over a long period of time, that can really be a great benefit to the investor. That's really the case we make to our clients and customers.

CONSUELO MACK: But you think there can be a role for passive investing for investors.

BRIAN ROGERS: Consuelo, absolutely.

CONSUELO MACK: So what is it? Where would you assign that role?

BRIAN ROGERS: We are not religious on this debate. We have a passive fund business at T. Rowe Price. It's a small part of our business relative to our active business, but we offer index fund products for defined contribution investors and others, and so it's really a matter of the individual investor's preference, and what does he or she want? Is he or she content with an index return, and that's fine. The individual investor in that case might not want to look at funds and might not want to know who manages the fund and how's the fund done in up and down markets. Some investors would just as soon as make that easy decision, and that's fine, and we can do that for people. There are many other investors who want to do better, and we really cater to that marketplace.

CONSUELO MACK: I last interviewed you in December of 2013, and at that time you were asking the question, what if nothing is cheap? Well, three years later nothing is really cheap as far as if you look at the markets. The markets are much higher than they were back then. What's your response to that? What do you do if nothing is cheap?

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BRIAN ROGERS: If nothing is cheap, you can't be wholly opposed to holding cash over a short duration, fixed income securities. There was interest rate risk at the long end of the fixed income market, but in the very short-term maturity range, you can invest very safely and defensively there.

CONSUELO MACK: Speaking of not being cheap, the Equity Income Fund, one of the things that you traditionally looked for were undervalued dividend payers. Is there any such animal out there now, an undervalued dividend payer?

BRIAN ROGERS: Yeah, I think it's a little harder this year than it's been over the last couple of years because there has been a big move to seek out income.

CONSUELO MACK: Oh, absolutely.

BRIAN ROGERS: You've seen it in the fixed income market, but you've also seen it on the equity market where high yielding stocks have been in great demand, and so I think it's a little bit tougher for my colleague, John Linehan, who manages the Equity Income Fund now, but there are interesting companies out there selling at attractive levels of valuation, Total and Chevron, two high yielding energy stocks, very high quality. You can construct a portfolio with Merck and UPS and companies of that ilk, yielding three to 3.2 percent, much higher than the yield you get on a ten-year Treasury. So there are still pockets of opportunity, but I think the market overall is more extended than it was at our last conversation a couple of years ago, and so that would argue for a bit more caution going forward.

CONSUELO MACK: Final question. One investment for a long-term diversified portfolio. What should we all own something of?

BRIAN ROGERS: Well, we just talked about how hard that is.

CONSUELO MACK: Yes, we certainly did.

BRIAN ROGERS: I'm going to mention two because I want to diversify. I'd mention two companies, both investments of T. Rowe Price. Bristol-Myers Squibb, a leading company in terms of introducing new immunotherapy strategies battling different types of cancer. I have firsthand knowledge that their products work, and the company sells at a reasonably attractive level of valuation. They had a little earnings miss a couple of months ago, but the company long term is going to do great, and in 20 years they'll be curing more people than they cure today. The second is Walt Disney, a company I've had an investment in for a long, long period of time, and in 20 or 25 years we will all be taking our children and grandchildren and great grandchildren or whatever to Disney World. The daily pass at Disney World, I don't even know what it's going to cost in 25 years, but it's a company with irreplaceable assets, a unique position, huge moats around its business and is a long-term winner in almost any dimension.

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CONSUELO MACK: So two one investments. What a bonus from you.

BRIAN ROGERS: There you go.

CONSUELO MACK: Brian Rogers, thank you so much for joining us and for sharing your lessons learned over a wonderful 35-year career.

BRIAN ROGERS: Consuelo, my pleasure. Thank you.

CONSUELO MACK: At the close of every WEALTHTRACK we try to give you one suggestion to help you build and protect your wealth over the long term.
This week's action point is: Add humility to the qualities you look for in a money manager and his or her firm. Investing is a humbling profession. Even the top practitioners make mistakes or can be upended by the markets. You want managers who recognize the risks, are able to minimize them, and acknowledge errors when made.

I hope you can tune in next week. We are going to change course and focus on strategies to create income in retirement. Two retirement planning experts will share some overlooked strategies.

To hear more of our interview with Brian Rogers about how he made the decision to scale back at T. Rowe Price and take one some other challenges that interest him, click on the EXTRA feature on our website WEALTHTRACK.com.

Also let us know what you think of what we are doing by contacting us on Facebook or Twitter. Have a great weekend and make the week ahead a profitable and a productive one.

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