

The Disciplined Investor Podcast – Guest Interview Summary

Guest: Cullen Roche

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Summary

Market Valuations and Investment Risks

Andrew and Cullen discussed current market conditions, focusing on high valuations and their implications for investors. Cullen explained the divergence in valuations between the U.S. and Europe, noting that Europe appears more attractive due to lower CAPE ratios. He emphasized that while future returns may not necessarily be lower, the risk of volatility is elevated when valuations are high. Cullen also highlighted the recent outperformance of foreign markets compared to the U.S., suggesting a potential compression of relative valuations. Andrew inquired about the implications of these trends, and Cullen explained the concept of sequence of returns risk and the importance of considering different time horizons when investing.

Market Timing and Investment Strategy

Andrew and Cullen discussed the challenges of market timing based on valuations and emphasized that tempering returns rather than expecting significant corrective actions is more realistic. They explored how rebalancing large investments in U.S. technology stocks could lead to increased investment in international markets, potentially contributing to the observed moves in small-cap and international stocks. Cullen highlighted the importance of considering time horizons when investing in technology versus other sectors, noting that technology investments might require more patience for stable returns.

Market Diversification and AI Impact

Cullen and Andrew discussed the importance of diversification, particularly for investors with time-sensitive goals, and highlighted the recent performance of various markets, including the U.S. and international markets. They explored the concept of dollar hedging through international equities and the potential for significant shifts in market performance when the U.S. dollar reverses. Andrew also touched on the current state of AI and its impact on industries previously disrupted by technology, noting that even established companies are now facing challenges.

AI's Impact on Employment and Economy

Andrew and Cullen discussed the impact of AI on employment and the economy. Cullen highlighted the rapid pace of technological change and the potential for AI to disrupt certain industries, but he expressed uncertainty about its overall effect on employment. They agreed that AI could be used creatively by entrepreneurs, while large, bureaucratic companies might be more at risk. Andrew suggested using AI to analyze and rebalance investment portfolios, an example of how AI could enhance rather than replace human expertise.

Investment Strategies and Portfolio Insights

Andrew and Cullen discussed Cullen's book, "Your Perfect Portfolio," which covers 20 famous investment strategies. Cullen shared his insights on the history and origins of various strategies, including the 60-40 portfolio, which lacks a clear origin story but has become a widely adopted standard. They discussed the challenges of finding a "perfect" portfolio, with Andrew reflecting on his own experiences of becoming disillusioned with the pursuit of minor improvements in portfolio performance.

Personalized Investment Portfolio Strategies

Cullen discussed the concept of finding a personalized investment portfolio that aligns with an individual's financial goals and behavioral discipline, emphasizing that there is no one-size-fits-all perfect portfolio. He used analogies of dieting and finding a spouse to illustrate the importance of sticking with a strategy that suits one's lifestyle. Cullen also highlighted the dangers of constantly chasing higher returns, which often leads to suboptimal results, and recommended an all-weather style of investing with broad diversification to protect against behavioral risks.

Investment Diversification and Time Horizons

Cullen and Andrew discussed the concept of diversification and the importance of accepting periods of underperformance in certain portfolio components. Cullen introduced the idea of "defined duration," a methodology for assigning time horizons to different investment instruments, particularly in the context of retirement planning. They also touched on the analogy of a "flower garden" portfolio, which Cullen found compelling and suggested adding a chapter about it to his book. The conversation concluded with a brief discussion about Cullen's book and future potential collaborations.