IFB238: Using Your 401k Match to It's Fullest, and What is the Best 401k Allocation?

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All right, folks, welcome to Investing for Beginner's podcast. Tonight, we have episode 238, and tonight we are going to answer three listener questions we got recently that are really interesting we'll. Take us in some different directions. So we thought it would be kind of fun to talk about some things that maybe we haven't discussed before.

So this would be some good learning information for you guys, so, and hopefully some fun. All right. So we'll start with the first one. So we have hi guys. My name is Carter, and I am 16 years old. I have listened to your podcast. And I was wondering if you could do an episode on the stock market and investing specifically for teens or young adults.

As I said, I'm only 16. Where should I start? I would love to hear your advice. Thanks. All right. So, Andrew, what are your thoughts on Carter's really great question?

[00:01:18] **Andrew:** First thing I would say, we did an episode. It was a great interview with Shamus Madon. I believe he was 16 at the time when we recorded it.

So this was back. In December 2021, between IFB 214 and IFB 215, you can see the interview we did with Shamus, and there was an entire episode on exactly that topic. How can teenagers get started with investing? If I were to try to transport myself back into a 16-year-old self, I would say.

What's the best way I could get engaged immediately? And how can I start to just pick a company? We had an interview, and we recorded it earlier today. People will hear it, maybe a little more spaced out, but basically saying, just pick one stock, learn about it, move on, learn about it, move on, and just find things that interest you learn about those things, and try to put your money to work in that way.

I think. Because the logistics might be a little bit tougher when you're 16, getting that, getting that. Getting motivated and inspiring yourself to take action towards investing, I think, is probably the best thing you can do.

[00:02:34] **Dave:** Yeah, totally. I would agree with that. And I think just stepping off the legend and getting started at, at any age, is always some of the hardest parts, but it sounds like Carter is gungho to do it.

So I think once he, once he gets going, I think he'll, he'll, he'll do great. So I think a couple of things to kind of think about. When you're starting off, especially when you're younger, unfortunately, if you're under 18 here in the United States, you can't open a brokerage account on your own. You'd have to do it with your parents.

It's called a custodial account, and it's something you can do through your parent's bank. Other brokerage accounts. I did discover something interesting, kind of looking into this before we recorded tonight, , some of the, , brokerage apps that you can download, like Robinhood and Webull, do not offer custodial accounts.

So you'd have to go through more of the air quotes, old school ones like Schwab or Fidelity, who do I know do offer both of those abilities. And so that would be an easy way for you to get started. I think probably Andrew's. He suggested that it is finding one company that you really wanna invest in and just dive in.

It doesn't work in today's world with the Shares that you can buy smaller portions of; it's a lot easier to get started. So if you don't have, you know, a hundred dollars or $150 or whatever Google's trading at, if that's the company you, you really love, and you wanna try to buy some of that, then that's a great way to get started.

Yeah. Another cool thing to kind of think about with all this is, is find things that, like Andrew was saying, that interest you, that you're excited about. A perfect example I'll use in my life. My daughter loves two things more than anything in the world besides me; of course, number one is Roblox.

She loves that. Like, geez, she loves that game and Disney. She loves Disney, plus she loves all the shows there. And so by me investing in those companies for her, it gets her excited about investing because she relates it to, you know, products that she really likes. And so it's, it also helps prop conversations about.

The company and the business and why, why this is great. And maybe why this isn't so great and so on and so forth. And I find myself; I find my daughter actually asked me, how did Roblox do today, daddy? You know, how's, how's the stock performing or how was, you know, how was the earnings call? She actually used that word with me the other day.

I was just, I almost passed out, , like, wow. But anyway, , so those are, those are like If you can find something that kind of interests you, that's gonna continue you to want to learn more about it. And

I think, you know, as we've talked about many times in the past, the sooner you can get started, the sooner all this can start to compound for you.

But I think the biggest thing is to find a brokerage account that you wanna open. Figure out a way to start putting that money to work for you. And as far as like specific things, you know, start, start slow. Like, the interview that we had today was great advice. Pick one company, and learn as much as you can about it.

Then move on to the next company in the next company. And always remember you do not have to swing at every pitch. So if you come across a company that you really like, and you're gonna buy. It's okay to dip your toe into it. But sometimes you may find things that you just don't like for whatever reason, and whether you don't like the CEO or you don't like the products that they're making, or you don't like the choices that they're making with how they're spending their money.

You can always change and not buy those companies; just because you've read about it or all your friends are talking about it doesn't mean you have to buy it. And so it. The same, same kind of role applies to us, big kids too. So, um, these are all things that I think are maybe a good way to just kind of dip your toe in and get started.

[00:06:29] **Andrew:** I don't know if this makes me outdated because I just remember when I first started; I've talked about how I purchased just one share of Microsoft, but I specifically remember a lot of you probably have Apple iPhones. They have that app stocks app, which I believe is still a default on there it is. So they preload like a few stock tickers.

I think apple, of course, is on there. Of course, of course . And I remember. Seeing those and then picking Microsoft. And then, every once in a while, once as soon as I bought a share, I was engaged. You know, mm-hmm, all of a sudden, I'm paying attention. I'm not just sitting back, and my eyes are rolling back the back of my head.

Anytime I hear about stocks, I'm engaged. And then as you kind of just learns through osmosis, um, you know, maybe one day you're, you're learning about. Oh, this is what the company did, you know, oh, this is what our earnings call is, right? Like examples like that, that all starts to build. And it will compound just as your wealth will compound; the sooner you start, the better it will be for you.

And so I commend you, you know, I think it's fantastic that you've found this podcast, and it's great that you're taking steps to set yourself up for a great financial feature. Just remember. Steps. So you're not gonna do it. I'm not, we're not gonna give you a little package, and you'll be able to finish it tomorrow.

And that will be it for the rest of your life. It takes steps, but have fun with those steps and go down the path that you find the most fun and inspiring.

[00:08:06] **Dave:** Yeah. Amen. Yeah. That's great advice.

[00:08:10] **Andrew:** So let's move on to the next question. This one says, Hey, Andrew, I've just started dabbling in investing. Most of my focus is on long-term investments for retirement.

Even more recently, I've started a listener podcast and downloaded John Bogle's little book of common sense investing, which I'm 80% finished with. I understand fully. Bo's premise is that the best long-term investment is putting your money in a low-cost index fund that tracks the entire market. And that is what I'm doing with my Roth dollars.

I also change my 401k contributions from a pre-selected target date fund, which underperforms its benchmark. Carried higher fees and had 40% portfolio turnover to the best available index fund offered by my company tracking the Dow. My concern is that I'm a hundred percent invested in equities with this strategy.

BOGO says, and he, he puts I'm summarizing. To put everything in the S and P 500 and leave it forever. But doesn't that ignore asset allocation? If you were in your thirties, would you want 10 to 20% of those 401k dollars going into a bond fund? Not asking for advice, just your opinion. Thanks. And this is from Kevin.

[00:09:27] **Dave:** So Kevin, that's a great question. So I guess, you know, I guess the way I would think about this is. The bond allocation for me, if I was in my thirties, this is, this is what I would do again, not investing advice. This is, I guess, how I would handle it in your thirties. You have so much longer to go that I would try to be as much allocated into equities or stocks as I possibly could so that I can benefit from those companies compounding for a longer period of time.

And that would be okay with me. And especially if you are in a broad market fund, you're automatically gonna get a certain percentage of asset allocation by that, in that all the companies that are gonna be in that fund are not gonna be, they're not all gonna be tech, you're gonna have. Companies or different sectors involved in the sector, ETF or the index fund, or a broad market fund.

And that can help provide you with some. Asset allocation. It depends on how, I guess, how deep into the weeds you really wanna go with some of that I'm kind of gathering from the question that they're, they're more looking at. I wanna invest in something. I wanna make sure it does well, but I also wanna kind of protect my downside a little bit.

And so if that is more your speed, then looking at something like a bond fund. It would be okay. There is no right or wrong answer. Personal finance is personal. And so it really comes down to what is you're comfortable with because, like Warren and uncle Charlie, like to say, we gotta be able to sleep at night.

And if you, if you're up all night thinking about my portfolio and that's keeping you from sleeping or getting a good night's sleep, then you need to. What you're comfortable with for me, I would go with a hundred percent equities until I got to a little bit older. And then I would start looking at rotating into some more, I guess, more fixed asset kind of income.

Assets to help offset some of the volatility that I could experience as I'm getting closer to retirement because that's something that you wanna consider. But when you're younger, your, your twenties and your thirties, I, I think going a hundred percent into equities, full bore, because it, it gives you that chance to compound for a longer period of time.

It also gives you a chance to overcome any downturns in the market that may happen. Period of time. So there are just two to me, there are two benefits to doing that as opposed to reducing some of that allocation for bond funds. But again, it really comes back to your risk tolerance and how much volatility and ups and downs you can stomach.

And that's, I guess, my thought. I'd love to hear what Andrew has to say.

[00:12:30] **Andrew:** Well, since Kevin. For my opinion and not my advice. I like the way he phrased that. I don't feel like I have to give all these different scenarios. So I'll just get right to it. My opinion is that in your thirties, it is better to do a hundred percent stocks and the reason behind it, I think.

It is easy to forget. And if I was a beginner and I knew nothing about the stock market, I would just tell somebody, go on Yahoo, finance, look up the S and P 500 chart, and then you can zoom out, and you can see the S and P five hundred price history all the way back. That's right. You drew the line, , with your hand.

Yeah. You look back; you could, you could go all the way back to like the 1920s. I mean, the stock market's been around even longer than that, since the late 18 hundreds. And you can see that there are peaks and there are valleys. It very much looks like a roller coaster, but the more time that you zoom out on the chart, the more you see this upward curve from left to right, from down to up.

And so. Knowing that, you can really see that. All right. Maybe in one year, the stock market really crashes after being up for so long. Maybe after two years, maybe even there's look there are periods of 4, 5, 6 years were the markets. Hasn't recovered or just barely recovered from a big crash, but you start looking at ten years, 15 years, 20 years.

There's, there's been no 20-year period where the market has not recovered from being down. If you're in your thirties, you have a 30-year time horizon. That's plenty of time to ride that rollercoaster up to the right. So that's, I think, the biggest reason why. And then the second reason is that if you think.

What is a bond, and what is a stock? Again, these are so basic, but it's really if you can understand these basics; I think it helps you feel comfortable about not feeling like you're missing out by being in bonds. But the stock is ownership of a business. A bond is a loan that you give to a business.

So I'll ask you, would you rather make it? Let's say four, five, or 6% lending your money to somebody else, or would you rather be that business? Who's selling lemonade to people making 10% a year? So there are, you know, there are businesses like banking where, where you get rich lending money, but they have a completely different system, but the vast majority of people.

Get rich by owning businesses. And the stock market is simply a place where you can own businesses too. And that's why over the long term, it outperforms bonds because businesses create profits, and then they reinvest those profits. And so it compounds, so businesses put money to work. Generally, better ways than strictly borrowing money can or lending money can

[00:15:40] **Dave**: And, , I like the fact that you were stating your opinion as opposed to advice.

[00:16:03] **Andrew:** I like that takes; it takes me off the hook.

You're right, exactly.

[00:16:06] **Dave:** Exactly. , I do wanna give Kevin some props for something that, , that he noticed that I think is something that will. That I think is a little bit of advice that I think could help people is he noticed that his target date fund was carrying higher fees, and that can be a killer over a long period of time.

And so find that one of the advantages of low-cost index funds or ETFs is that most of these will. Match or duplicate the S and P 500, for example, for a much, much lower fee than you may get for other things. And you may not think, ah, you know, okay, it's 1% big deal, but that's 1% you don't have compounding for you over the next 30 years.

And that can end up being tens of thousands of dollars or hundreds of thousands of dollars, depending on the size of your portfolio. And that's a lot of money. Why give it to somebody when you could keep it for yourself? The same performance from a very similar type of fund. And, I'm not bashing target date funds, but I'm just saying that as a general rule when you're looking at funds and you're trying to decide which one should I choose?

We had a great guest, Nick Magguilli, just recently. And he was talking about the impact of fees in his book as well as on our show. And. He said he is probably one of the number one killers. And so that's something, if you're investing in index funds, ETFs, target, date funds, mutual funds, any of those kinds of things, always make sure you pay attention to the fees because chances are, you can find something that is gonna perform as well or better for fewer fees, which means it's gonna save you money in the long run.

So that's all something we, we all love to do. Like Warren Buffett likes to say, I like to buy my stocks, you know, cheap, just like my stocks. Any chance that you can save yourself some money here or there, it's gonna help you in the long run. All right, so let's go on and move on to the last question. So we have, hi, my name is Stash; two months ago, I decided to jump in and did everything wrong. Okay. So he downloaded RH and invested in 10 companies that I did no research on. Luckily they have all done well, but it discovered your podcast and wanna take a different approach. Now that I've got my toes wet and have learned so much from you.

My question is regarding my 401k versus a brokerage or Roth IRA account. I'm 45, and I have 50 K in a 10% matched 401k from my company, to which he contributes 8,000 a year. Looking at the returns. It seems similar to other funds, but in some other research, the fees seem rather. Fees again, from what you have taught me about compounding interest, this worries me, and I would hate to lose the match, but I'm wondering if it'll be better for me to switch from my Robinhood to Fidelity.

If I should throttle back my 401k contributions and focus some of my money on value, investing on my own into dividend value companies, I would love to hear both of your opinions. Thank you for what you do. I've learned so much. So, Andrew, I love Stash's question here. So what are your thoughts?

The match in a 401k versus brokerage accountant and some of the other fun stuff you put in here.

[00:19:29] **Andrew:** Totally. I, I like where your head's at, Stash. I think it's a really good idea to think about compounding the long term, the problem with fees, and all of that. That's all very good to think of.

Think the match is the best because the match is a 100% return on your money. Did, did he say what percentage? Do they match?

[00:19:56] **Dave:** He just said it's a 10% matched 401k. Okay.

[00:19:59] **Andrew:** All right. So I'm assuming that probably means up to 10% of your income you can contribute, and whatever up to 10% they will match. If they're matching one for one, that's a 100% return on your money instantly.

If they're matching even like where you get a 50% return where it's like two to one, you put in two; they put in one, that's a 50% return. You're not gonna get a hundred percent return, a 50% return in the stock market even if you're Warren Buffett like you can't do that year after year after year after year.

It's impossible. Nobody's done it. So yes, the fees. It will hurt you over the long term, but the fees are such a small percentage when you compare it to this 100% or 50% gain from the match. So it's almost like you gotta take, take the, take the paper cuts that come with the hassle of a much bigger pile of cash because taking money on your own, you gotta go and, and try to earn a return from it.

Putting it into a match. You get that money easily, with no effort. And it's just a great benefit that employers will offer. And it's one of those things it's like, I don't know, a better place to make money. As an employee, then do that.

[00:21:22] **Dave:** So let me ask you a couple of questions if I could. So what are your thoughts on, I guess, throttling back the 401k and putting money into an individual brokerage account?

So let's just say for hypothetical, let's say that he's still contributing enough to get his 10% match, but then instead of going beyond that, then maybe what, what, what would your thoughts be if he did that and. Invested some into his brokerage account, you know, on a standalone basis and kind of followed dividend value companies and kind of went down that path.

So if I was coming to you and I said, Hey, I'm gonna contribute up to my match, but I want to, I wanna put an extra $500 a month into a Roth IRA. What are your thoughts on

[00:22:03] **Andrew:** that? Yeah, it's exactly. I love that idea. That's exactly what I did when I first started. When I worked for an employer who offered the match, it was, let me get all the way up to the match.

And then anything after that you put into an IRA account, like a Roth IRA account, was a perfect example. And that's a great place to put any stocks in because those can grow either tax-deferred or tax-free, depending on which IRA account you use. So. Yeah, that's, that's another great way to avoid a lot of the fees and some taxes that come out of not utilizing all of the tools in your arsenal.

One of the basic frameworks for personal finance, and this is something that. It could be very useful for a lot of people. If they followed it, be step one, you, you make a small emergency fund, could be something like a thousand dollars. Like Dave Ramsey recommends, step two would be. Contribute to your 401k all the way up to the match.

And then step three would be a Roth IRA or traditional IRA that tax-preferred stocks that you're buying. And then, once you max that out, then you can go back and finish your 401k. I've heard a lot of people do that. And I, I think that's a great way to go about it. Of course, assuming that you're in debt free too.

So, I mean, you could talk about debt too, but just on the investing side. That's a pretty good framework, and I don't see anything wrong with a framework like that.

[00:23:37] **Dave:** Are you, do you, are, are you familiar with, I, I think that's a great framework too, by the way. What are your thoughts on whether you could set up automatic contributions to a Roth or a traditional IRA, like your checking account to your brokerage account?

[00:23:53] **Andrew:** Yeah, totally. I know, like for Fidelity, as an example, it's really easy to open an account, by the way. Even if you feel like you don't know about Roth IRA or traditional IRA, you can go to Fidelity's website and click through their prompts, and they make it super easy. And it's not; it's not like you have to take an IQ test or anything.

It's, it's pretty simple. And especially in today's age, they've made it so easy to do it online. It's kind of ridiculous, but you're able to do that. And then, you link your account. Like, I have a bank of America checking as one of mine, so. It's all set up on there. You can sign into your BofA through Fidelity, and it's all linked up through whatever fintechs behind the scenes.

Yep. And then you can just set automatic transfer, and I believe you can do it on either side. So either you can log the Fidelity set up auto transfer there, or you can log into your bank of America as an example and set up another transfer there. Cuz I have other transfers. that I set up in the Bank of America that go to my daughter's 529, her college savings account, and I've seen the option on Fidelity to do automatic withdrawals or automatic deposits.

Excuse me. So I know that's. Definitely an option as well. So yeah. I love that idea. Yeah,

[00:25:14] **Dave:** no, that's, that's awesome. The reason why I was thinking about that is that one of the advantages of a 401k is that it comes out of your paycheck and goes directly into the account. And so there's not a lot of effort that needs to be made on our part to contribute to the 401k.

And so I was, you know, thinking about if you remove some of that friction if it could make it easier for people to invest in a brokerage account, um, too. You know, kind of set that pattern of, of investing in yourself and treating out like a bill and, you know, it's money that you're gonna, you need to spend on this instead of, you know, the waiting to the end of the month air quote, thing.

So, okay. I guess the last question that I have about this is something that I kind of mentioned. So what, what would you say to somebody that. They're they've been kind of following this plan of having a 401k and matching as much as they can, but maybe over time, their company's stock overcomes the rest of the portfolio.

In other words, let's say that they have 50 K like, like Stash is saying, and 30 of it becomes one stock. And the other 20 are now in a basket of whatever. Funds that they're allowed to choose from. And how would you handle that? Would you be okay with that? Because, you know, the concern that I had when I was at Wells Fargo was that it started to become a bigger portion.

Like my concentration was so much in the company as opposed to, you know, my overall portfolio, and when the stocks started to not do well, then my 401k. You know, so, um, what are your thoughts on how to handle that?

[00:27:02] **Andrew:** We've said this multiple times before, but in general, you wanna try to diversify away from your employer for that exact reason; not only doesn't it make your 401k very volatile, but if that company goes under, you're out of a job and a 401k mm-hmm so yes, you definitely wanna try to diversify as much as you can away from your employer.

That said, though, like, for example, for your Wells Fargo thing, were you able to, like you were not able to sell the matched shares, so their 401k match, they were giving you Wells Fargo shares, and you had to hold them. Was it for a certain amount of time? Yeah.

[00:27:44] **Dave:** They, they, they wouldn't, they wouldn't invest for, I believe it was three years, so they were mine.

And if I left the company, I wouldn't get them, but I was allowed to sell them. But at like a discount to whatever the price was that I, that I bought them at. And as, so like every year that escalator. It would get closer to zero. So the first year was like, I think 50% loss on the, on the stock. And then the next year was 25.

And then the last year there was no, there was no escalator. So it was, but they did that to make sure that you stayed at the company to, you know, to make sure that you, you know, were able to benefit from those shares. So that was how they did that. I think that's a pretty common thing in, in the, at least in the banking world.

So. Yeah, that's the way that they did it. And it, it, it forced my portion, that portion of my stock portfolio to just get bigger.

[00:28:41] **Andrew:** Right. I mean, shame on them for not matching and putting it in a responsible, low-cost index fund. Right, right. I, so, yes, it's, it's tough to. Allocated really heavily to a stock or company, and yes, you generally don't want that to happen, but I kind of bring it back to that same answer to this question from Stash of almost like, think of that money as it's almost like you're, you're playing with the house's money where.

The alternative would've been okay. Because I don't wanna be concentrated. I'm not gonna take advantage of the match. And I think that would be silly. I think you gotta take advantage of the match. All right. If, if you're not so hot on the company itself, fine, maybe, maybe there, the stock stays flat, or maybe it even goes down while the rest of the market goes up.

But remember, you still made a hundred percent; you doubled your money. So even if the stock goes down a bit and the market keeps going higher, you still come out way ahead if you never did the match at all. So that's the way I would try to approach it. And almost just look at that. I would probably.

Take that away from my allocation and the way I'm thinking about how diversified I am. Because again, it's a house's money, and obviously, yes, as soon as you can get it out, get it out, but until then, just let it ride and, and don't stress about it. Don't feel like you're. Being too risky, cuz I don't think it is; it's just, you're just playing the cards that you were dealt, and those are good cards.

401k matches are awesome. Yeah. Yeah,

[00:30:26] **Dave:** they are for, for sure, they are. And I, I agree that would, that would that's great advice. And, I. I talked to the financial advisor, as well as some of the old, more tenured people at the bank, about that kind of problem. And that's exactly what they did when their shares would match, they would sell them and either reinvest them in other funds in their 401k, or they would take the money out and put it in something else.

Um, and preferably they weren't reinvesting it back in a bank um, but, so then that's how they, and that's how they handled it, because what, you know, as you said, You know, it was, it was house money that you were playing with. So even though, and you know, the benefit too, at least when I was at Wells, was that they paid a dividend at the time.

And so that, you know, you got, you got that other compounding too. So that was the nice thing about a hundred percent match that I also got dividends that were growing on top of that as well. So that was kind of a nice little perk as well. So yeah, that's great advice. Thank you for sharing.

[00:31:29] **Andrew:** Didn't work to keep you locked in with the company, though, h? No, it did not.

[00:31:35] **Dave:** all right, folks. Well, with that, we will go ahead and wrap up our conversation for this evening. I wanted to thank everybody for taking the time to send us those great questions. Those are really a lot of fun. And hopefully, you guys learned a thing or two along the way.

If you are uncertain about anything that we talked about is like, I don't know what that is. Check out our website. I am investing for beginners.com. We have literally a thousand articles or more on there about investing. There's a great search bar at the top of the page that you can type in. Just about anything that we talked about today could be a great encyclopedia for you to help you learn more about investing.

And it's a great free resource for you. So please check it out. So with any further ado, I'll go ahead and sign us off. You guys. Go out there and invest with a margin of safety emphasis on the safety. Have a great week. We'll talk to y'all next week.

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