IFB239: Why Time in the Market is More Important than Timing the Market

[This transcript was generated by artificial intelligence. Timestamps are not 100% accurate depending on the platform used for listening].

Dave

0:00

All right, folks, welcome to Investing for Beginners podcast; tonight, we have episode 239. We have three great listener questions we're going to answer, actually two; one is a two-parter that we're going to answer tonight. And then Andrew and I will do our usual little give and take. So without any further ado, I'll go ahead and start us off. So hello, I was hoping to pick your brain to provide a little more color on Fibonacci retracements, as it pertains to stocks,

I recently came across the term, and it seems like something that would be more valuable to a short-term investor slash day trader. But anyway, I was curious if this is something you pay attention to as a long-term investor. And if so, what is the value of paying attention to them? Respectfully, Nick. So Andrew, what are your thoughts on Fibonacci retracements? And that whole idea? This is an interesting question from Nick.

Andrew

0:48

It is an interesting question; basically, Fibonacci retracement it's talking about the price of stock charts when it comes to stock. So there's a problem with relying on the charts and only relying on the charts. And that's that I haven't seen anything compelling that makes me think that it's a reliable way to invest. I mean, maybe trade but definitely not invest. And it just seems like a really hard game to play; we have to understand that the basics of the stock market are that there are businesses underneath these stocks. And so the reason why a stock goes up over the long term is that the business is doing well.

So it's really not that hard of a game. I mean, you can make it really, really difficult and confusing. And we have, and people have, but it's a lot easier to find good companies and let them do the work for you rather than trying to play all these crazy games with the price and the chart because I can't wrap my head around

why it should logically work. And I haven't seen any evidence to show why it even works. It makes me think that it's not something that has any value for me to pay attention to. And I think for most people, that's the same thing as well because you can't pay attention to everything.

And if it's not worth your time, it's not worth your time. So not maybe the happiest answer, but I think it's the closest to the truth.

Dave

2:15

I would agree with that. I think one of the things that it makes it a challenge is that there's a lot more effort in time that you have to spend watching the price movement of a company that you're buying because you're basing your whole investment on that price movement, as opposed to valuing the company or basing your assessment or purchase on the potential value of the company, when you're using charts to invest, you're really looking at the stock price, pretty much solely, and at least from what I understand, I'm a novice at this. And so this would be something that I would not have a lot of detailed, in-depth knowledge about. If you go back and listen to Timothy Sykes, we did an interview with him about a year and a half ago. And this is something that he does, and he's good at it. And it's something he's spent a lot of time working on, to become good at it. But he has a system that he's worked out that works for him. But this is not something that appeals to me.

And it's not part of my nature to, I guess, I feel like I would be speculating on companies as opposed to valuing a company. When I buy a company like Visa, for example, that's a company that I'm looking at what I think the company is going to be worth in the future and trying to assess those metrics and those numbers, as opposed to wondering what the momentum of the stock is going to be whether it's going to be up or down. And there are lots of the ins and outs to really getting into that kind of investing.

And it's just not something that I necessarily use. I mean, I frankly don't really look at charts much at all, other than I'll look at graphs through Braden's website to look at how the company's fundamentals are doing. But as far as looking at the stock price and a chart of that, I very, very rarely look at that. Is that something you look at all?

Andrew

4:08

It's rare; I think when you say it feels like speculation, I think the reality is it is very close to speculation than it is actually a good strategy for most people. There are fundamental reasons why stocks move, and they can have momentum, and that's all true. But to think that because stocks moved a certain way yesterday, they should move a similar way tomorrow. I just don't. I don't see how that makes any sense.

Dave

4:40

I don't, either. It's just one of those things for me. It's a different kind of investing. And it's just not something that appeals to me. And so it's not something I've ever really dived into and had glancing knowledge of it, but it's not something that I pursue. And I just feel like there's so much more effort. It needs to be done to do it well because you have to pay so much closer attention to the price movements of the company than you do every quarter, wondering whether the company was able to meet its targets and achieve its goals for whatever goals that they're working for. Whereas every day, you have to worry about whether Microsoft is going to go up or down or not.

Andrew

5:23

The people who say that they can No, that's the people the talking heads who say that they know the mood of the market, they're either constantly wrong, or they're replaced by a new talking head who thinks he knows that he knows how to take the temperature of the market and project the mood of the market tomorrow. It's just it kind of pisses me off, but it is what it is. So I think we've beat that as much as we could. So let's move on to the next question. This one says, Hey, Andrew, and Dave, I'm a Canadian investor.

And just want to say that I have really enjoyed listening to your podcast, and I've learned so much; you guys have had a big influence on helping me to build a foundation of knowledge to begin investing. I do, however, have a couple of questions. I'm 27 years old and just started investing a couple of months ago. I currently have two separate portfolios, both Tax-Free Savings accounts. One is specifically for safer defensive dividend stocks to hold for the long term and bonds; the other is going to be more aggressive and focus on deep value and grow stocks for a shorter term. I plan to do an 80/20 split between them so as to limit my risk.

However, once the market gets too high, that justifies putting money into one or the other or both. Would it be wiser to hold cash in a savings account? Until an opportunity to invest arises, invest in bonds or continue to dollar cost average? I know dollar cost averaging is more of a psychological play; thus, I'm curious about your thoughts. So what's your answer to the first part of this question?

Dave

6:51

Well, I think there are several things that kind of come to mind. So the first thing is timing; the market is more important than timing, the market being invested as much as you can with your risk tolerance, and you're comfortable in this level is more important than trying to hold for the air, quote, the perfect time to get into the market.

And that becomes kind of timing the market kind of idea. And I have yet to see anybody like we're just talking about, I have yet to see anybody that can perfectly time the market, even Uncle Charlie and Uncle Warren, do not time the market and they don't even try, they just buy when they buy, and it goes, there are times that you will find great values, and there's gonna be lots of targets available. And there's gonna be other times where it might be slimmer pickings. And you might have to either reinvest in what you have or try to find newer investment ideas that might be a little more challenging in those times.

So there's going to be ebbs and flows to that. But the bottom line is, is that study after study after study has shown that having money in the market working for you compounding, building that wealth, whether it's through dividends or stock appreciation, is going to lead to the goals that you want over a longer period of time. And so, if you have the wherewithal and want to be invested, it's better to be invested over the long term than it is to hold on the sidelines, waiting for Google, for example, to get to your perfect price because it may never happen.

And then you miss all that other opportunity to be invested in; there is something to be said for opportunity costs. And every day that you don't invest, that you can invest, that is a day that you lose to compound over time. And you're not always going to find the perfect price for a perfect company. And sometimes, it's better to dive in and get in now. And enjoy while that company is performing. It's meeting its goals is executing on their plans, management's great management's in place, you know, all the economic conditions are right for them to do well. And you can take advantage of that even if you pay ten bucks more than you really want to; in the long run, that's not going to matter. And so I would look at it as I will continue to dollar cost average, I will continue to do the things that I've done to get me to this point. And if you're comfortable being invested in the market, then keep doing it. I guess that's my first thought. So I'd like to hear what you have to say surrender.

Andrew

9:27

Dollar-cost averaging is not a psychological play. It is smart to play. And then there's the practical play. I think it's easy as an investor to get too cute and think the market looks too high. So I'm just gonna sit this one out. But I would really caution like too high based on what too high based on your opinion of how expensive you think the market is, or is it really based on what the individual stocks are? So I think before somebody tries to get into like timing the market gets, you know, there are really good investors who are very successful and not. They don't pay the dollar cost average.

But they are also in a very different situation than the average investor would be. So you take somebody like Warren Buffett, he gets ebbs and flows of cash that he has to deal with, with Berkshire Hathaway, Berkshire Hathaway owns these businesses, which produces cash flow. So one year, he might have, let's say, a billion dollars sitting around the next year, maybe it's $2 billion. Next year, maybe it's 500. All this cash flow. And then, right for most average investors, it's kind of more like a steady paycheck. And maybe a bonus here, there are not the same constraints and not the same goals as when you look at some of these

investors. So for the average investor to make progress and to have their money compound over the long term, you've got to be putting the money in; you don't want to buy expensive stocks because that's how you can lose years of compounding.

So you do have to be careful what you buy. But just to generalize to say that the whole market is too high, so I'm not going to invest because I think I'm smarter than the market. I would caution that and say maybe you should learn why you think that's the case, and maybe trust that there's a possibility that you're wrong.

Dave

11:13

Yeah, for sure. I think when you think about when the market, the phrase the market is high, there are several things to think about. When you think about that value. Investors come in all different flavors and shapes, and sizes. And some people that are on the value investing side want to buy things, and when they get to whatever they think the fair value may be, they want to sell that and kind of rinse and repeat and start the whole cycle over again. Other value investors prefer to buy a company and try to hold it for as long as they can, ideally forever. But it's you know, circumstances will change.

And you have to change your view when the circumstances change in. Sometimes when you buy a company, the economic conditions for that company may continue for 15 or 20 years. And like Charlie Munger says, one of the biggest mistakes in compounding is interrupting it unnecessarily. And that's something to keep in mind. I'll give you an example. So it's Warren Buffett who bought American Express back in the 60s for $8.84 a share; it's now trading at around 170 bucks a share. So he's made a nice tidy return over the years. And he could have easily sold out when it got to $20 a share or $25 a share. But instead, he's held it through all these years. And you know, he's made huge amounts of returns that keep in mind now that it's paying almost $2.50 a share in dividends, almost making his money back on his original investment, just on dividends alone through all these years.

So if he had interrupted that compounding earlier on, he would have missed out on all those gains. And the stock market History is littered with people that have gotten out of a company too soon. And you can have lots of conversations about when's the right time to get out. That's a very hard conversation to have. But one thing I do want to caution is getting out too soon if you are comfortable with a company like constellation software or Brookfield asset management to speak in Canadian terms or to think of somebody like Visa or MasterCard, or any other company that you think has a long runway to continue to produce before something would come along and stop that happening.

Why wouldn't you want to be involved in investment for as long as you possibly can because that's going to give you greater returns? Again, there are different flavors of value investing. And a lot of this comes back to your own risk and what you're comfortable with; I really go back to what Charlie said. And that is a psychological play is thinking about, you know, being comfortable holding as the company continues to do well. And for me, that's an easy thing to do. But it isn't for everybody. And so that's something that you just

have to consider and think about. But I would caution you about getting out too early because you could miss out on longer gains, especially if it's an investment that's done really well for you. And as a company that's going to continue to keep producing on its economic.

That's what you really want to see. Yeah. Okay, so I've beat that horse. Let's move on to the second horse. All right, so also I have been researching emerging markets and industries, and I hit a bit of a speed bump. Most of these companies have very little track record to go off of, asides from the management team Jasmeet being x Sony executives, for example, and what limited progress and financials they have thus far. I was just wondering what insight you might have as to how one would go about researching companies with such little information. Thanks again for all your guy help, Carson. So Andrew, what are your thoughts on Carson? The second part of his question, it's kind of interesting.

Andrew

14:41

It is interesting. I hate to sound like this GRUMPY MAN tonight, Carson. It's not; don't take it personally or anything. I don't know why I've got this, this feisty streak going, but it's just something I would just avoid. And you know, maybe that's, again, going back to it doesn't fit my personality or my interests. But I really do have a reason for avoiding a lot of things. And I think emerging markets and industries, not emerging markets; I'll talk about emerging industries. I think emerging industries are it's like a minefield and filled with potential danger. And it's frustrating to see, especially what we've seen lately, how investors get swept away and they get seduced by stories and stocks that sound really, really good. And everything sounds so positive.

And it worked for a while until it did; no chasing momentum worked for a while; it worked for a pretty good while through 2020, 2021, 2022, you hit metal 2022, it worked until it did it right. The same thing with these emerging industries, these fast-growing stocks; a lot of them worked until they did it. So unless you feel like you are really passionate about a particular emerging industry, I would probably say that it's better to avoid a lot of those companies because it's not as easy to pick the winner as you would think. And I've used this example before; I'll say it again, back when search engines were first starting out, Google was one of the players and was not the number one player; there were 1112 different search engines. Google just ended up making the best customer-friendly search engine. And they ended up winning, and they ended up winning big where became winner take all, and everybody else fell to the wayside. So we kind of look at today. And we think, oh, yeah, well, Google. But it's not that obvious.

And so if there are 12 companies, and you know, only one of them is going to make it, how do you make that determination? I mean, every CEO and every single one of those companies probably thought that they would be the ones to make it. Otherwise, they wouldn't be in that business; they'd go do something else. So those are not great odds versus taking something that's a little more established. And mature already have indicators of cash flow ways that we can value the cash flow ways that we can determine if it's cheap or expensive. I just like to go that way.

So I'm sorry, Carson, I don't have any insight for you into how you would go about researching these companies because I just wouldn't, because the little bit of information, or the lack of information that discourages me from it, the fact that emerging industries are really hard to predict that discourages from me, so I can't help. That's all I can say.

Dave

17:25

Well, I mean, those are all great examples. And I think one of the things that when you're investing, I think one of the things want to think about is you want to invest where you're comfortable putting your money. And when you invest in a company, whether it's here in the United States, or whether it's in Brazil, or whether it's in Indonesia, you have to be comfortable that you're going to get a good return on your money. And if you're struggling to find information that can help you sleep better at night, then you have to ask yourself, Why am I doing this? Are you looking to? Are you looking to beat the market that you're in?

Or are you just looking to be different, and again, not trying to be negative or be Debbie Downer. But I sometimes think, staying within your circle of competence or area that you're comfortable with, it's okay to push the edges because that's how we get better. And that's how we learn things. But sometimes, if you step outside of that whim, sometimes that limbs are not that strong, and you may fall. And we don't want that for anybody. And it really comes down to your comfort level of what you're trying to do and why you're trying to do it, and if you're trying to find the next Google, then that's one thing. But if you're trying to find something that's exotic for the sake of being exotic, you have to ask yourself, why are you doing this? If I look at some of the things that I've comfortable with, I have bought some companies outside the United States in the last couple of years.

And it's only been because I was comfortable with the information I was able to gather about those companies as well as the economies that they operated in, the rule of law, and all the different things that go into investing in a company. And so I had a relative level of comfort investing in those companies outside of the United States. Two of them were in Europe, and one was in Canada. So it gives me a little bit of a comfort level, knowing a little bit more about those companies. Now, the flip side of that, as you guys have probably picked up over the last few years. I've really been big into payments and the whole FinTech thing; I've probably talked ad nauseam about that with people.

And it's something that really interests me, and my fiance is Brazilian. And so there have been a lot of companies coming out of Brazil recently that have done really, really exciting things in payments in Brazil. But the flip side of that is that I don't live there. I don't necessarily understand the laws and the cultures as well. And I've never been there yet. And really, my only resource is my fiancee, and she doesn't work in the finance industry. That's not her cup. A tea. And I don't really have any air; quote people on the ground to give me information to learn more about what it is I'm trying to invest in. And so, even though Warren

Buffett is invested in two of the companies, I still have failed to pull the trigger on them because I just can't get over the hump of the information gap.

And of the other comfort levels that I need for this is Dave, to invest in those companies. It's not that they're bad investments. It's not that they're bad companies. I'm not saying bad things about Brazil; far from it. But those are all things that I have to be comfortable with before I can escalate to the point where I would buy something like that. Now, the flip side of that is that I have tried to learn more about electric vehicles, batteries in particular, and where's something, maybe an opportunity to invest in that growth opportunity.

And he mentioned Sony? Well, Sony is one of the companies that builds a lot of batteries. And I attempted to try to learn something about that company, and it was too hard for me. And sometimes it's okay to put that into the too-hard pile and move on to something else because, again, it kind of comes back to that opportunity cost that you may be missing out on investing in something that may be closer.

And you know, it may not get you a 100 bagger, but it may get to a 20 bagger, investing in your home turf, or in Canada, for example. And there's nothing wrong with that. So I think sometimes you have to kind of weigh the pros and cons and ask yourself why you're doing it. And if you know, for me personally, and I think I speak for Andrew too. If you're having trouble finding the information, then maybe that should be a clue to you that maybe this is maybe not the best idea for investment. Because, as Andrew said, the landscape is littered with fraudulent ideas or businesses that go bankrupt because they don't have the right economics or whatever. And why play that game. That's so much of a harder game to play. And investing is already a hard enough game. And I guess I would try to stick with games that I can play and have a better opportunity to win that.

Andrew

22:03

That's very well said. I feel like there's been a theme tonight. And it's this idea of investing in what you're comfortable with. So can you maybe speak on why that's so important? When it comes to the investor trying to get the best results? Can they? Why is it important that they invest how they are comfortable?

Dave

22:21

Well, I think it comes down to I think you need to invest in things that you're comfortable with for mostly honestly, for psychological reasons, I think it gives you a comfort level to feel like you can make an assessment on what happens to the company on an annual basis or a quarterly basis, however much you want to pay attention.

So you have a better pulse on the overall economic and macroeconomic conditions that the country or company may be in. And it also gives you a better sense of you understand the culture that they're working in, the people that are working there, the product fit that you know, whatever it is that they make, or produce or service that they offer you understand that kind of thing. Because it's a food you eat or drink you drink or a product that you use an iPhone or something like that. All those things, I think, psychologically make you more comfortable about investing your money in that business. Because even though you may not know the ins and outs of exactly all the different little microchips that are in the Apple iPhone, understand what Apple's doing, and you understand what it's doing.

And you see other people using it. And all those benefits help you get a better appreciation for the importance and the relevance of that particular item. Where is if you're investing in Brazil? For me, I have no connection to that; I'm literally just reading a report. And I don't understand how it's impacting the lives of the people that may be interacting with a new bank; for example, I don't have any way of gauging that. Whereas here, I can see the impact that Wells Fargo or PayPal is having on people because I use the product, I see other people, and it has an impact on me. And so psychologically, it helps me feel more comfortable about investing in that, and there's less unsureness. If that's a word to me, I guess that's my thought. What are your thoughts on that?

Andrew

24:13

So it's, it's the comfort that lets you stay invested, which keeps you from doing something stupid, like selling too soon, which is the secret to success and investing?

Dave

24:24

Is it just sitting on your hands? Yes. Yeah, doing nothing. Doing nothing is a choice.

Andrew

24:29

I think that's very underappreciated is how much wealth you can make from a company that can just get a little bit better every day, over a long time period. Those are the ones that can make you significant wealth.

Dave

24:42

Yeah, absolutely. And I think that was one of the things that Warren Buffett illustrated during the pandemic. I think when the market was crashing, I think everybody in their brother assumed that he was

going to take out the elephant gun, so to speak, and buy so much stuff, and he didn't, and people were freaking out and bashing him because he didn't.

But like you were just saying, the choice not to buy is an action. It's a decision not to buy something because he felt like he had, you know, he was doing what he needed to do. And I think sometimes that idea of you don't have to be active just for the sake of being active.

Andrew

25:20

Yeah, I would somewhat agree with that. I think I would generally agree. I mean, you always want to be putting money in. And once you put it in and try not to touch it if you can. Because, as you said, in the beginning, the ideal holding period is forever. It's going to be hard to hold forever if you're uncomfortable with the company. So I agree with everything Dave is saying, like, You got to be comfortable with what you're owning because that's going to be the key to continuing to own it. And when the market gets crazy, that's when people panic and freak, and that's when you sell too early. You got to stick through it if you want to have that compounding.

Dave

25:55

Yeah, I totally, totally agree. All right. 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 were all great stuff. And it was a lot of fun to talk about those things. And hopefully, you guys got a good takeaway or two. And Carson, we are not trying to pick on you, please. We just we're in a little bit of a feisty mood today. So please keep in mind all those things and try to take everything we were saying to help you. So without any further ado, I'll go ahead and sign us off; you guys go out there and, at best, with a margin of safety, emphasis on the safety. Have a great week, and I'll talk to you all next week.

Contact sales@advertisecast.com to advertise on Investing for Beginners podcast. The Investing for Beginners podcast is part of the Airwave Media podcast network.

We hope you enjoyed this content. Seven steps to understanding the stock market shows you precisely how to break down the numbers in an engaging and readable way with real-life examples. Get access today@stockmarketpdf.com until next time have a prosperous day. The information contained just for general information and educational purposes. Only it is not intended as a

substitute for legal, commercial, and or financial advice from a licensed professional review, our full disclaimer@einvestingforbeginners.com.