Nick Maggiulli Joins Us to Talk About Just Keep Buying

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I love this podcast because it crushes your dreams and getting rich quick. They actually got me into reading stats for anything you're tuned in to the Investing for Beginners podcast led by Andrew Sather and Dave Ahern with a step-by-step premium investing guide for beginners. Your path to financial freedom starts now.

Dave

0:00

All right folks, welcome to Investing for Beginners Podcast. Today we have a special guest we have Nick Maggiulli, who is the Chief Operating Officer and data scientist at Ritholtz Wealth Management. He also is the author Of Dollars and Data.com, which is one of my favorite blogs. It's amazing. If you guys have not checked it out yet, after we're done with this interview, you'll understand why.

He also has written a great book called *Just Keep Buying* that we're going to talk about today, as well as other things. So Nick, thank you very much for taking the time to come join us today. And talk to us about your book, your blog, and all the great things you got going on. So we're really looking forward to our chat today. Thanks.

Andrew

0:38

Yeah, thanks for joining us, Nick. So can you maybe take us way back to when you first started the blog? Why data and dollars, what really compelled you to write about that kind of stuff?

Nick

0:51

So my prior job, I was a litigation consultant, which is just a fancy way of saying we did a lot of data analysis for lawyers. And basically, I just learned how to do a lot of cool data stuff. And the job was great. There's nothing wrong with it. I had a nice career path. It was nice and smooth and everything, at the same time, that my heart wasn't really in it. I knew I really liked finance and personal finance and stuff. I said, Hey, why don't we take the data skills I learned here and just kind of apply them to this problem, right? Like, there's like a lot of data that, you know, that we can look into.

And I can maybe do things that haven't been done before, especially with the charting visualization, stuff like that, where I had a little bit of an edge. I think most people today in the space are using Microsoft Excel, which is great if you only make one chart, but if you need to make like 100 charts, it's not that great, right? So I was like, Oh, I basically use a for a loop. You know, I built a lot of charts and a lot of cool stuff, cool visualizations, okay, and maybe I'll just write about this stuff. And so I kind of just started it from there; it started as you know, I love data, and I love personal finance. And so they that marriage, there's kind of dollars and data.

The name came from Of Mice and Men; there's this time back, and I was trying to come up with all these names. I was like coming with like money mining, mining money, all these things, this pre Bitcoin and every before I even knew about what Bitcoin was, so I didn't know anything about that, like, and I was like coming up with names. I was like, ah, these are also stupid. And then when I saw the Steinbeck, I said, Wait, have something said about dollars and data. That's like a perfect marriage. It sounds nice. It's kind of that, and I was okay, that's perfect. So that's how it worked out.

Andrew

2:08

That's awesome. That's cool. Can you get maybe take us back? I don't know; it feels like it doesn't have to be one of the first blog posts you ever did. But something where the data shows you something really shocking about personal finance, or something that maybe people should put their mind on that you wouldn't really understand until you saw the data?

Nick

2:30

Yeah, so the first blog post I ever did was actually kind of an interesting result because what I was showing was, you know, the fees and how much have to pay attention to fees, especially over the long haul. Now, you guys have probably seen this; you heard this analysis 100 times ago if you know if someone's charging you 2% A year versus 1%, or half a percent. You know, that difference is huge over a lifetime. Right? You've probably heard this before. But I think what really exemplified this, as I said, I looked at the typical two-in-20 hedge fund fee structure.

And I said, it doesn't matter how much money you start with your client of this hedge fund, within on average, 20 years that hedge fund will have more money than you, you could have $100 million, they could have zero. And if they're just taking your fees and reinvesting in every year, within 20 years, they'd have more money than you, which is kind of shocking to think, right? But I said, okay, well what happens if you did the same thing with like a Vanguard Index Fund or something, right, or just a low-cost index fund, we don't have to use Vanguard, it just doesn't matter.

You can use State Street; you can use whatever BlackRock, all those other ones out there, you use a low-cost index fund, which is charging, let's say, like five pips or something right, five basis points or point 5%. That would take 1500 years before they had more money than you. So 20 years versus 1500. Right. And no matter what, like if you think about fees, what they are like fees are kind of like friction, imagine your car going down like highway fees or like friction, like it's kind of a slow, like a brake pedal on you, right? And that friction, you know, that basically slowing you down relative to the other vehicle, which is like the fun collecting the fees.

So at some point, they're going to pass you, right? If you're going 99 miles an hour, and I'm going 99.1, no matter how far ahead you are, I mean, I will eventually pass you at some point, right? But with a hedge fund, it's like you're going 99 miles an hour, and they're going 500 miles an hour, right? They're gonna pass you much more quickly because they're just taking so much in fees. So that was the analogy I like to think about, but I thought that was kind of a cool, interesting result. And it just means, like, yeah, fees are important, especially at the high end, right? That doesn't seem like I'm paying, you know, ten basis points or five basis points is kind of small, doesn't really make that much of a difference. But the difference between like 2% And you know, 50 pips or ten pips or something that's huge. Right? Those are huge differences. And those really add up over time.

Dave

4:26

That's interesting data. So do you think that the reduction of fees to invest now with like Fidelity and Schwab, for example, making it zero? Does that kind of have the same impact? Do you think?

Nick

4:37

I think there are different types of fees; there like transaction fees. There's, and I think this is I mean, for example, transaction fees going to zero say that's a good thing, right? That's like fewer fees. Well, if you're doing a buy and hold portfolio, that is true, just that's going to be better for investors. However, the counter to that is, well, with no transaction fees, that encourages people to trade as much as possible, and that may change their behavior to a point where they actually hurt themselves more. It makes it worse for them just because of how they're acting. But I'm saying if you're just doing a long-term buy and hold approach, like, the lower fees are clearly better, right? Always question, though, is if you change your behavior because of those lower fees, that's where you can kind of get into trouble, right?

You can see you imagine people trading in and out, and they're more likely to make mistakes; day traders or not, something like 95% of day traders isn't profitable over the long run. So it's very unlikely you're gonna be in the 5%. And even if you are, it's going to be difficult to know if that was just luck or if you actually do have skill.

Dave

5:28

Yeah, that's a good point. All right. So let's talk about the book. And let's talk about savings. So I worked in the banking industry for about five years before I got into what we're doing now. And I saw firsthand how little people were actually saved by having to have customers in front of me and seeing, you know, people with literally no money in their accounts. So tell us about saving and like what the crisis is if there is a crisis, and I guess, where do you think we can go from here?

Nick

5:55

I think the thing was saving the big issue there is I mean, there's basically two schools of thought, the first school of thought is like, Oh, the reason people can't save money is that they're spending too much right, which I, technically at some point is always true, right? If you had no spending, you could save all your money, right? But that's impossible; we have no spending, we need to eat, we need to shelter, like, you need to spend money, right? So that's the first school where people are spending too much. The other school is people are making enough income, right? If they had higher incomes, they would be able to save more, right?

And that's the school of thought that I support. And that's the school of thought that the data support in a huge way. And I think the strongest correlation out there between savings rate is your income, right? Like the people with the highest incomes have the highest savings rate like that's across the board. Now you can be like, well, I know a rich guy that doesn't save that much, right? He's like, he blows all his money. It's like, yeah, how many people do you know like that name, maybe you have three, four or five, like, Guess how many I can name every other rich person, like, you have a handful of people that are just that are taking their money and doing this right. I think that's why I hate those stupid examples of celebrities that blow their money. And they use that as proof that, like, oh, it's all about mindset and stuff. And don't get me wrong. Mindset matters. But like, as I said, you have like five celebrities, you can name I have every other celebrity that is rich, right? It's clear you're using great examples. But my example says much bigger than yours.

Right. And so I think it's a trick that the financial media plays on people. And it's like, oh, the reason you're poor is that you're spending too much. And for some people, that's true. But for most people, I just don't think it's there. And especially what you just said, Dave, about, you saw these people didn't have money in their accounts like I'm yet some of those could be obviously spending it, but you can see the flows, or you can see how much money is actually coming in, right? And so even if like, okay, they come in every month, they have to spend 1000 on rent or whatever. It's like, where's the money coming from? Like, as you can't get out the math, your way out of insufficient funds, or you can't mindset your way out of insufficient funds.

And that, at the end of the day, that's my big argument here. And the data supports it, and I'm just tired of this. Cut your spending; don't get your lattes type stuff. It just doesn't it's not doesn't move the needle enough.

Dave

7:45

So how do they save more? So how do you go from, you know, what I saw to a better situation?

Nick

7:51

Do you have to raise your income? I mean, there's no way to, I mean, you're saying, well, that's so easy, Nick, I wish I could I just flip my fingers and raise my income. No, it's not easy; actually, it's much harder, but it's the only sustainable path out, and you have to either get a side job, get a second job, get a side hustle, like start building something and do it, and you have to spend time, and it's not easy, right? It's better to start when you're young and that.

And I'm not trying to guilt trip people into doing that. You shouldn't; you can never enjoy your time off or not spend time doing something. But at some point, like, if you're in a tough spot financially, it's the only way out question is how much does that matter to you? Like, if you don't care about having that much money, you don't care about that, that's fine, and don't do that. But like, if you are worried about it, it's causing you stress, it's like, it's gonna be far less stressful in the long run, if you get out of that hole than if you just sit there and say, Well, I don't want to work another job. Well, I don't know what to tell you. I can't, you know, find another skill that may be and level up your current job where you can get paid more your current job; there's a lot of things out there. I mean, there are people, I remember seeing these Twitter threads, people just like yeah, I learned like 10 Excel functions. And now I can go in there. I'm, like, better than most people know how to use Microsoft Excel.

And there are jobs you can get in accounting and stuff like that pay like, you know, 40 50k a year, which is not a ton of money, but it compared to a minimum wage job. It's kind of a big boost, right? And so even if you have to start there, like I, you know, I feel like people can learn Excel. This is not rocket science. I think most people can learn most of these things and get a decent-paying job. Right? I think it just takes time, and you have to put the time in, and there's no excuse for that. There's no kind of way around that. Right. It's like I wrote on the internet for three years and made $0, Right? And then I'm now my blog is actually making money off advertisements and stuff like that, because I said, Hey, I can have ads now.

But it's one of those things where you have to do that. I did do 10 hours a week for three years for nothing, right? And I'm not saying you need to be doing 10 hours or you could be making far more money just even working a minimum wage job, right? But I'm just saying that's an example of something that I just happen to love doing. Just find something you love to do that you could hopefully get paid for.

Dave

9:37

Yeah, I think that's a great resource. So I know that during tax season, you know, for example, I know that h&r block looks for people to help with filing taxes; now, you don't necessarily have to be the person filing them, but there are other jobs that you can do there to help with that. So I know that you know, I think that's a great idea that trying to help people find other things to do to that's a big reason why I'm here because that's what I did. I started the kind of the same ID Yeah, I started the blog and started the podcast.

And you know, while working in the restaurant business, it wasn't easy, sometimes staying up until two or three in the morning too, you know, edit podcasts or write blog posts. But it was something I loved to do. And, you know, here I am. So it's definitely doable. I love that idea.

Nick

10:16

Yeah. And now with the gig economy, there are so many things, you know, popping up things you could do on part-time do on the side, or there's tons of stuff out there. And I think that's what's important is to realize, like there are options out there right now, it's very difficult because obviously, gas prices are going up. And the question is, are the prices of those underlying services going up to match? And hopefully, they are, but that's one of those things where like, You got to, you know, just spend time doing research and looking to what might work for you.

Andrew

10:39

So Nick, do you have a take on investing? Let's kind of stay on this person who feels like they just can't save. Do you have a take on investing versus raising your income? Should people do both? Should they focus on one versus the other? What kind of mindset do you think needs to go there? Well, of course,

Nick

10:57

I always encourage people to like, learn more learn about investing, things like that. But for someone who's like not, if you can't save money now, like, the most important thing is raising your income. So you can save money, right? And I think the example I gave, and this isn't the first chapter of the book, I think it's the core piece of the book, like understanding the structure of it. And I created something called the Save invest continuum; everyone's on this continuum.

And all you have to do is give me two numbers from your life; from those two numbers, I can then tell you where you are on the continuum and what you should be focusing on, basically. And so the first number is, how much could you save in the next year? Right? So I'm gonna just use a simple example. Let's say you could save 500 A month over the next 12 months; that's six grand a year, right? The next question is, okay, how much can your investment portfolio earn you in the next year? Let's say you have ten grand invested, right, and you can get, let's say, I'm going to just be conservative and say, 5% return, right? So that's 500.

So the first number was 6000, the second number was 500. Obviously, 6000 is much bigger than 500. Therefore, you know, you need to focus on that part, the 6000, to try and raise that get that invested. So that the other number goes up over time, are you imagine if you had $1,000 10,020 50 100, as that second number gets bigger, it's going to overtime, you should see this shift to the point where your investments earning you more than your income is providing.

Now the example you provide, Andrew, I'm guessing this person has basically nothing invested, right? And their savings aren't high as it is; maybe they can save 100 bucks a month, right? In that case, the only thing they should even be spending any time on, I think, is their income, right? Because they could spend all the time in the world on investing. So I'm going to put this $100 getting invested in that degree; I don't think that's a bad thing to do. But it's not going to move the needle, like getting a second job or something, right?

Because you imagine this was an example I gave when I was 23. I spent all this time analyzing my investments, which should be 5% bonds and 10% bonds; I was like very neurotic and didn't know exactly what to do with my asset allocation. And I didn't think, well, it's only $1,000 invested at the time, even a 10% return for me, that's $100, right? Like, even if I could double that, like, you know, I'm gonna get a 20% return, so good. It's 100 extra dollars I just earned from spending all these hours doing this; I would have been far better suited to go get a side job or go be a bartender or something and pick up those eggs in one week,

I can make more than that. $100, right? So for a lot of people, all that time you are spending on investing right now it's not worth anything, especially when you control for the number of hours; you're probably getting paid to $3 an hour on like what you could actually earn. Now, obviously, if you have 100,000, a million, whatever invested that, then those hours can add up. But for some the doesn't have a lot of money, it makes almost no sense to be spending that time on investing. It makes almost all the sense, though, to use that time to work and earn money that then you can invest.

And then in the future, that you know, it'll make more sense. It's like, where are you getting the most leverage, right? Where's your lever the most powerful for you? If you have very little money invested, that lever is so small; it's useless; you need to use the lever, which is your time, which is going to be able to, you know, earn you more than your investments. Well. So I hope I know that's a long rant. But I hope that kind of gives you an idea of where people should focus.

Dave

13:46

Yeah, it definitely does. So I guess let's talk about debt. I bet you have some interesting thoughts on debt. I'd like to hear what you think about debt.

Nick

13:54

Yeah. So I think a lot of people in the personal finance space think debt is always bad. And I think there are certain types of debt that can be bad; it depends on how they're used. And there are a lot of contexts that matter. I don't think debt is necessarily bad. I think it's how you use it. And the second most important thing is the type of debt that matters. And you know, do you actually need the debt? The people who actually use debt the best are the people that don't need it. It's very ironic; for example, I can give a very extreme example here, Elon Musk and a lot of other rich people do this Elon Musk thing; instead of actually selling his Tesla stock and using it to fund his lifestyle, he borrows against it.

And this is at a point when you know, interest rates were lower than they are today, but they're still relatively low. So instead of having to sell his Tesla stock, which he expects to go up in price, he can just borrow against it and pay back at, you know, whatever two 3% interest rate, which is basically nothing, right? So it's one of those things where the people who benefit the most from debt are those who don't need it. The other thing to keep in mind, I think they've done tons of studies on this, and mortgage debt doesn't tend to bother people psychologically as much as other kinds of debt like financial debt through credit cards or something like that, or even student loan debt. But the main thing to keep in mind there is just that like you need to know yourself and like maybe you're one of those people who don't want any debt.

So you don't even want mortgage debt. So you shouldn't be a renter. And that's fine. I mean, there's anything wrong with that? You need to know yourself. And so that's kind of what's important. But yeah, I would just kind of look into that. And you know, figure out like, know yourself, and then figure out what debt might suit you, and then go from there. But yeah, I would try to avoid credit card debt. Obviously, there are cases where if you have no money, and you need to use it, I recommend you; to do it right, you need to do it. So to survive, right? There's no other choice, but I just try not to get caught up with that.

Andrew

15:26

So you mentioned the psychological part of personal finance. Do you have views? I mean, being the data guy, having looked through tons of data, maybe in your own personal life or just what you've observed from talking to people who read your blog? Is personal finance a psychological game? Is it a numbers game? Is it somewhere in the middle? What do you think about that? And how do you think people should frame their personal finances like that?

Nick

15:49

Well, yeah, it's definitely both problems I have with the psychological parts of money, it's hard to prove, and it's hard to test, right? Like, I can't do an experiment as I could, where I can't look at, like empirical data like I can with like income versus savings rate, for example, I can be like, oh, people with a million dollars in income have a much higher savings rate than people with, you know, $10,000 in annual income, right? And you can see that clearly in the data, right?

So because if you just have more money, you're spending tends to go up more slowly than your income, right? So that's where the savings go up, right? But with a mindset is really hard to test that, right? I can go and give people a million dollars and see how they behave and see if they save more money, right? I can't necessarily say, Okay, I'm going to switch your mindset. And I'm gonna have these ten people, this mindset and these ten people this mindset and control a mind is like, how do you control a mindset? Maybe, you know, 100 years from now, we'll have something where we can actually test the mindset and all sorts of stuff like that, but we can't really do that. I mean, the AIDS, is that even ethical, and then B? Is it?

Could we even do it like, technologically, right? So because it's kind of falsifiable, you can't prove that it's false. It's really difficult for me. So there's like a lot of big leaps that you have to make with the psychological parts of money. Of course, they matter to say they don't is foolish, like I think we all know, like, you can change your mindset about something, and it'll completely change your life. Like, I think we know that that's true. The question is, it's hard to show that it's only mindset; it's not something else. So I kind of want to keep that open to thinking about what we can prove versus what we can't prove. And that's kind of debate here

Andrew

17:09

. Yeah. Makes a lot of sense for you personally. Do you have things you go kind of against the data? Because you like the mindset? Or do you kind of set your mindset based on the data, like for yourself personally, with the way you look at personal finances? Where do you fit?

Nick

17:24

I think, like, I have no, I have my biases, like, I'm kind of biased against real estate as an asset class, not because there's anything wrong with real estate, I know a lot of people have made money in it. I know you can get rich in it. And I do own some through just real estate investment trusts, which is just like the public, just real companies that basically own slices of a bunch of different buildings, right? And so I just own it. I'm just a shareholder of all those basically buildings, and there's like a management company, etc. But I don't own personal property. And I haven't because I just think I live through I was in one of those cities; I had one of the biggest housing booms and busts in the United States. I was in Riverside, California; if you guys can look that up, that area had one of the worst housing busts during a way, and both my parents lost their homes during this crisis. So I saw a lot of bad stuff happen.

And I'm very biased against Real Estate. That's an example where my psychology is overriding what I know about data and where I know like, Oh, of course, real estate's generally safe as a class of this and that, but I've just seen so much stuff with it that I haven't touched it yet. Now, of course, don't hold me to it. Ten years from now, five years from now, I could be buying a house; who knows?

But it's one of those things where that's an example where just from a personal bias I have another one too is sometimes you're just like convenience is more important than ever than maximizing dollars. I think an example of this is something like rebalancing. So if you have a portfolio, I'm just gonna make it very simple 60% of US stock and 40% US bonds. And the question is, well, how do you should have 60%? Where should you have your stocks in? Like your taxable account? And then your bonds and your non-taxable like your 401 K? or how should you like allocate those across your accounts? are this called asset location? Where do you put your assets? The optimal thing to do is to put all the high-growth assets into your non-taxable into, like your 401, K's IRAs, and ever because they grow very quickly. And so you want to avoid all the tax on all that growth.

Generally, that's the correct solution. I don't do that, though. I just have all my accounts basically look like carbon copies of each other because it's easier to rebalance across the accounts, right? There's just that's just ease of use. It's easy for me, and so even though I know the optimal solution, I still decide to behave sub-optimally because I'm not I don't want to spend the time to like, Okay, I have to move all this into there. It's just not worth the headache. So I just like to make them copies of each other just because it's easier.

Andrew

19:24

I think there's a lot to be said to having things that encourage behavior with investors and people managing their finances versus doing what scientifically is the right thing to do but may do more damage than good if dissent advises people from actually doing what they're supposed to do, which is save and invest kind of related to that, which I think when you look at the title of your book, this idea that, you know, people can get really paralyzed when they see the stock market down a lot. And you know, there are fears about inflation, people think, you know, there's a full Question. So nobody's gonna have money, so nobody's gonna spend money.

So stocks are gonna go down how other people get away from that kind of a mindset, one that's maybe psychologically will hurt your behavior. And instead, look at the optimistic part of the stock market, which is, you know, the data says over the long term, it does very well. And we know we should be investing in the stock market. How do investors make that flip?

Nick

20:24

So I think, I mean, what I do is I use history, and I just that helps with that. But the other thing it's the data. It is not great right now. But my counter to this is, what other options do you have? This is actually my counter-argument I use, like, if you look at the data after inflation goes up after we have like a yield curve inversion, which we had, I think, earlier this year or something, it's it doesn't look good, right? Like, if you look at it, stocks perform worse right than they do when there's not a yield curve inversion, or they perform worse when inflation is higher, right?

So we know that I expect to stock the stock market to perform worse going forward than it would in any other random 12-month period throughout history, right? I know that. The problem is that every other asset class performs even worse than stocks, right? At least the of the ones I've tested, like bonds, cash, those things that you like, really like, oh, I want to hold these because, you know, I'm gonna move and wait until it's clear, the coast is clear, then I'll jump back in the problem of the stock is, if you had done that, you would have actually performed worse than if you just stayed in stock. So it's like, we're in a bad spot, but there's not much we can do about it.

So that's really like the only message I can provide to people. Because, like, you know, even cash is getting killed. A lot of things aren't doing great right now. But that's the kind of takeaway there. It's like; it's we're in a tough spot. But there's not much we can do, unfortunately. And yeah, I wish I had a better answer. But like, sometimes that's how life is, and you have to accept it. Like sometimes. That's what the data says. That's what the data said; historically, of course, this time could be different. We'd be hitting all-time highs three months from now, which would be amazing in its own way. But I don't expect that I don't know; I obviously have no idea what's going to happen. But so you have to keep in mind.

Dave

21:50

Yeah, that's all great.

Andrew

21:52

Can we dive a little deeper into that? Just maybe the basics of some of these like, Man, this finance stuff, this economic stuff? It's all confusing to me. Why would stocks be the best place to be in? What would be your answer to that,

Nick

22:04

I mean, because you're owning a portion of all of the public businesses in the United States and the earnings that are going to provide into the foreseeable future. Alright, so you have every person working for every public company working for you. And then, if you own a diversified global index fund, you have everyone globally working for you in some small, small, small way, right? Obviously, the percentage of your ownership of their labor is very, very, very, very small.

But the point is, it's kind of true, right? If you think about those companies that are working to earn a profit. And that profit is eventually either paid to shareholders through a dividend or through a buyback or through just retained earnings that are reinvested in the business. There are different ways this is done, but basically, you, as the owner, you're getting a benefit from that right from that behavior. And so this is an ownership society, this we live in a capitalist society, you know, people can debate that, and it's own but given, you're in a capitalist society, right, where, you know, you should own capital, that's the name of the game, right?

And just keep buying is about acquiring capital over the long term. Right? So I'm just trying to teach people how this actually works and what it means to own capital. So why is that better? Generally, then being someone who's, you know, you're giving out money? You're someone's borrowing from you. Why is that generally better? Why is it better than buying a bond? Cash tends to be inflated over time, which means that its value of it goes down as it goes to zero, but it just slowly, slowly decreases, right? You know, you we could back in 1910, we could have got a sandwich and a soda for a nickel, right? Or something like that, right? Today, you need to spend like, you know, six $7. Maybe depends where you are, right? But that's, that shows the change in money over time. So because our money supplies because the value of $1 is dropping consistently over time, the only way to fight back against that is to invest in assets that will ideally grow over time.

And that's what you know, stocks do their own and businesses, right? So it's talking about the only thing you can do that with real estate, you can do it with other income-producing assets, such as you know, if you own a royalty collection of a bunch of music that's that people listen to, and that's always paying you because they're getting streams and it's being used in movies and stuff like that. There are a lot of ways to do this. I'm not. I don't think that the stocks are the only game in town.

But they're a very easy game their game it's easy for a lot of people to understand, and they historically have done well. And so that's why I recommend them. But you know, figuring out the right mix and what right what works for you, it's gonna be different for every person, some people will be like, I don't even touch the stock market, I own a bunch of properties, and that's fine because they want to physically see it and touch it and, and that's fine. Some people need that. I don't personally need that.

Like, you know, I think something like 99% of my net worth is in financial assets like I don't own any of even my apartments furnished like I don't even really I always my mattress in my clothing. Like I literally, I own nothing except financial securities because I believe in them, I believe in them for the long term and what they will produce for me, so yeah, that's, that's my little rant on income-producing assets.

Dave

24:42

That's a good rant. So I guess what your thoughts are on? Like, you see a lot of stuff on social media about buying the dip and how to invest in a crisis. And you can argue whether we're in a crisis, you know, if you want to use the R-word or not, how do you think people should kind of use them? View what's going on right now. And how do they just keep buying?

Nick

25:02

I mean, I think the key here is, like, we can just do a little bit of math to show like when the market drops, you know, it needs a bigger gain to get back to even right. So let me do a very simple example; let's say the market was valued at, let's say, $100, a share, whatever; I'm just using that to make this easy. If it drops to 50, that's 50%. Drop 50% decline. But to get back to 100, to go from 50 to 100.

That's a 100% gain, right? So the gain needed to get back to even as larger than the percentage drop, right? So if right now, let's say so right now, the markets down What 20 Something percent, you're gonna need, like a slightly larger than 20. You know, if it goes down 20%, you need like a 25% gain to get back to even, So that's roughly what that means right now if you just can estimate how long you think it's going to take the market to recover. Of course, this is not easy. No one knows the future, all that disclaimers.

But let's say you think, Hey, two years from now, I think we'll be at a new all-time high. That means right now you're looking at roughly 25% return over the next two years; you try and annualize that it's a little bit under 12% is probably like 11% a year, something like that love and a half maybe, right, the question I have for you is, Do you want an 11 and a half percent year return for the next two years? If you really believe it's going to hit a new all-time high within two years, and there's nothing saying it will. But if you believe that is true, then by you not buying stocks today, you're basically saying is if you do believe it's gonna take two years and you're not buying, you're saying you don't want 11.5% return, which is higher than the historical average for the record. So like, that's the way to think about it.

And I think what was really cool was, I mean, not cool, but like it was interesting, the math how it worked out during COVID, we were down 33%, you know, which is a 50% gain to get back to even I asked people on Twitter, how long do you think it's going to take until we kind of recover and hit a new all-time high. And the median estimate was somewhere between two and three years. So let's just say three years to make the math a little bit easier. 50 divided by three, that's not exactly how you do the math; you have to actually compound it. But let's just I'm going to linearly just divide just because it makes it simple.

You know, you're looking at like 16% a year. And that's way above the historical average of, like, 10%. Right? So it's like, everyone, even if you said three years of recovery time, you should have been buying like mad because like in three years like it'll be back to even right, I'm looking at a 16% return from here. What actually happened was within six months, it was back at a new all-time high for March 2022. Like, I think September or August whenever hit the new all-time high. And that was 100% over 100% annualized return over that period. Right? That you got that 50% return in less than half a year, which is like one of the greatest returns of all time that you're ever going to see one of the greatest like rallies, right?

And so when you think about that, it's like we I didn't I obviously had no clue that was going to happen. But you think about the math there and think about, okay, what's happening right now? We're down 20%. Like, if it takes even if it takes five years to get back to even five years is a long time, you're still looking at a 5% return here, which is not great. It's below average. But we're also gonna get 5% A year right now. Do you have something else? Can you name something else I can give? You know, the bond can do that cash is losing as of right now. 9% a year? I'm not saying it's gonna do that forever. But you see my point, right?

Like, where else are you going to get 5% A year right now? There's no place I know. So like, that's why wouldn't you be buying? You know that's, that's, that's my counter. You're like, oh, because you can go down more? Okay, then buy more. You know, it goes down forever. What does it matter? Anyways? Like, if it all goes to like a stock Mark goes to zero, we're gonna go con guns, canned goods, gold, whatever, you know, different banded tribes? I mean, how much are you gonna make a fire? Maybe by survival kit? You know, I don't know. Like, where I mean, you see the analogy, it's like, it's really just a call option.

On the upside. It's just a real upside option. I can't really look at this and say like, I can't think of a downside scenario except for Armageddon. And in that case, it doesn't matter if I had bought or what I had done anyways. Right? So

Andrew

28:27

I find it funny that you did a great example of the 2020 little mini bear market we had, where literally if you put yourself back in that timeframe, it did look like the world was ending. Like, I don't know how businesses were even expected to function and survive when everybody's locked up at home. And now you fast forward two years. I don't see anything nearly as scary as on the horizon, personally. And yet, you know, investors don't want to buy this dip, either.

Nick

28:58

Yeah, I mean, I'm actually gonna be writing about this pretty soon. Just a blog, like, is this worse than 2020? And that's the question. Now, obviously, 2020 was clearly like, you know, scary or like everything. We thought the economy was literally shutting down flights or stopping oil went negative, like the stuff that happened was just absurd. But it made sense, though, like everything. I think it was one of the most rational crashes I've ever seen. 2020 made a lot of sense to me. 2021 made no sense at all. Like, I don't understand 2021 was the craziest thing I've ever seen. I mean, I was around in 99 when I was nine years old, so I don't really count that.

But like 2021 was the craziest investment you've ever seen. 2020 was just like, oh, this made perfect sense. The world's like; literally, the economy was shutting down as we should. I'm surprised we didn't go lower. Honestly, I was actually surprised we didn't go lower. And we recovered as quickly as we did. So that was the kind of shock for me and 2020

Andrew

29:45

What was it about 2021? That really just like threw off your rocker?

Nick

29:50

Just the prices just got so high on just crazy things. There are pictures of these NFT rocks that were selling for $2.3 million. Same as a nice property, you can get like a B beachfront property like in Florida, like, just in rent, now those things are selling for like 50k or something, maybe 80k. You know, which still is, like, kind of a high for a picture. But you know, it's still like one of those things were like $2 million for a picture, right? No, no, no piece of art, you know, it's like a JPEG, right?

And so I don't know, it was just there was this small growth, stock tech stocks and went to the moon, all this just crazy stuff. The Gamestop thing became something started all that was really when it was like guys, casinos open for the year, and I had no idea. I had no idea when we came to 2022. That was all over. But I think people just woke up after that and said, Yeah, we're not doing that again, and my prices adjusted accordingly.

Andrew

30:38

It's funny, you know, just to kind of hit on that a little more. It's funny how to go living through that time period; it was never necessarily clear that that was not what I call the top of a peak, but that, that there was something really different about that time period. But that's kind of the thing about history; Ray is when you look back, you can kind of make these conclusions after the fact.

And so, if we're able to make conclusions about 2020 or 2021, obviously, you don't have a crystal ball, but I'm guessing I know what the answer to this question is. But if you look back at 2022, are you going to wish you had bought stocks? Say we're looking whether it's 2023? Or 2026? You know, my guess is you're saying yes, I'm gonna probably wish I bought more.

Nick

31:23

Yeah, I would say so. But you never know who could have a bad deck. I will say this by 2042. I can almost guarantee you wish you'd bought stocks today. Now, can I say in 2032? Highly likely, but who knows? I mean, we could still be below there in 10 years. It's possible. It's happened before, so to say it's never happened. But by 2042. I'm very convinced that I will be like,

Yes, I should have been loading up more. Why didn't you know, but the question is, you know, how long until then? It's crazy. I have to wait 20 years. Are you kidding? I have to live in real-time. Can't wait 20 years, right? But that's how the game works. Right? You're trying to do this to earn some extra money. That's how it works. So

Andrew

32:01

Yeah, that's really great wisdom there.

Dave

32:03

Yeah, it is. So if you got a friend that's kind of on the ledge, how could you talk them off the ledge to get them to start investing in the stock market today? With all the craziness we've experienced over the last couple of years? How do you get them to take the step to start,

Nick

32:19

just start putting money away? And just I would say, don't look at it, that's probably the best thing to do. For example, I sent my sister up with her 401k. And I said, Yeah, her name's killers at Kelly, they're just gonna take, you know, this amount of money out of your paycheck, you're not gonna see it, you'll never know. And now she has over five figures. And it's been a couple of years just from saving fingers.

Like, how did I get that much? I was like, that's how it worked. Kelly, you don't even look at it. We weren't monitoring it. I just said, Hey, get I said, How much do you think you have in there? Right? So I don't know, like, you know, $2,000 like, no, it's this month, she was like, what? How did I be like, That's exactly how it worked. And then, as the market did incredibly well, it did decently well, you know, for in 2021.

But like, still, it's one of those things where that's what happens, even with the current crash, you still have like done decently well, just from saving a little bit every month for the last couple of years. And so it's one of those things where, if you're worried about that, I think the more, the more important thing for most people who are starting Yes, get started. That's important. But really like your true like financial, like the big financial levers are going to be your income. And if people don't talk about it enough, I'm an investing person. I know investing inside out; it's like really the thing I really care about; I love more and am really passionate about far more than the personal finance side. But I know at the end of the day, income is the real lever for most people, and it's how you get started. So you can start getting into investing, right?

You know, I'm gonna be very honest, I was very privileged that I, you know, I went to a good university, you know, and as a result of that, I got a very high-paying job. So I could save a lot pretty early, right? And so I was I'm one of those people, I've been able to save a lot not because I had good financial discipline, or because I made a budget. No, it just ice had more income. And that's the truth that most people won't talk about that the financial media refused to talk about it. But I will say like, Hey, I was privileged because of this. And that's why it made it very easy. I've never made a budget in my life; I've never had to think about that.

Obviously, I'm not out there being extravagant, you know, doing like, you know, flying first class all the time, or, you know, getting bottle service every night at the club, or and I'm not doing anything like that, or buying super fancy watches and things like that, like, I've been very, you know, mellow and my consumerism, but at the same time, like, I do know that like, that's what matters is like, I didn't have to create a budget I had I And and that's the important piece to

Dave

34:16

remember. Yeah, that's, that's great advice. So I guess we've kind of danced around this. Can we talk about dollar cost averaging? I know this is one of Andrews's favorite subjects. And you wrote this fantastic blog post recently about it.

And I wanted to give you an opportunity to pound the table a little bit about dollar cost averaging because I think it relates to 401k. Is that what you were just talking about with your sister?

Nick

34:35

Yeah, so I want to say this because this is a big confusion in the community. There are two definitions for dollar cost averaging, which mean very different things. And the first one, which is the original one, I think Ben Graham, called it that's called $1. cost averaging is just buying over time, like as soon as you have money like so you get money, you get paid in your 401k you put you know, you take your money home, but some of that money goes in your 401k, and you invest right as you get paid, right you're buying As soon as you have the funds available, that is the first time or dollar cost averaging, that's what just keep buying is about that someone I support.

The second definition which is used is if you have a large sum of money, let's say you have, let's say, you know, you sold a business, and you have $100,000, or you got an inheritance from someone, right, you have 100 grand, and you don't want to put it all into the market right now, you're going to slowly average into the market that is also called dollar cost averaging. But as you can see, those are two very different things. That second thing is something that I do not support because you're slowly getting into the market; generally, on average, the market goes up.

So you're technically buying it at higher and higher prices over time; it's usually better for you just to get invested right away, right? That's what the map shows; the data shows that it's shown that in every asset class; I go over this in the book, too; I cut the day in a bunch of different ways. But that's basically the main takeaway there. So the thing I'm talking about here, the first definition, dollar cost averaging, is the one I want to focus on. And I think it's incredibly important because that's how most people shouldn't invest. And it's the only way to kind of it's a disciplined approach, it gets your behavior in line, and it just works over the long term.

Even, you can look at snapshots of like, Oh, if you had bought here, and it was still down ten years later from here, right? But is your account going to really be down ten years later? Not necessarily. Because what if you're buying over time, if you put a snapshot, yes, that can be true, let's say you bought at 100. And then ten years later, it's at 95, you're like, Oh, I would be down not necessarily, depending on the path it took to get to 95, you could actually your account value could actually be up because as you're adding more money to it, you could actually earn more than what you put in. So that's what matters. It's like the path is what's important.

And generally, the path is upward and to the right. So that's the long story short because, you know, declines are quick and swift. So usually, you have that quick thing happen. And then after that, they usually kind of recover in some fashion.

Andrew

36:38

So I hear this almost like, to me, it's like a distortion of the idea. But you hear in the crypto worlds where you're; you're just averaging down. So what's the difference between averaging down in something like crypto versus dollar cost averaging in the stock market?

Nick

36:55

Here's where we're getting into income-producing assets versus non-income-producing assets, right? Like, I would argue, averaging down in crypto or averaging down in buying like art, or wine or something where there's no intrinsic income associated with those assets. That's only based on what other people are going to pay for it, right? And so if, in the future, someone is not willing to pay more for that crypto, you are buying an asset that may never go up in price again, right? That's the issue. The difference is, I believe, generally, that stocks and businesses and things like that, I mean, of course, not every business is going to go up forever.

No, a lot of businesses go under. In fact, most businesses will go extinct. The half-life in the US stock markets, about ten years, half of the companies will get their acquired merge, go to zero bankrupt, whatever, within ten years, that's like the half-life, there's a great book on this called scale by Jeffrey West, I recommend it to scale. But the key to this is if you're diversified, you own the whole pie; the winners tend to outperform the losers. And so you make money. And that's all we're doing is diversified investors, right? I'm not trying to pick which one's going to be the winner, which one's going to be the loser; it's very difficult. I just own the whole basket.

And on average, as long as there are enough winners, more winners than losers, and you make money. And that's how the stock market returns, you know, eight to 10% a year, the US stock market returns eight to 10% a year. So what I would say for those people in crypto, they're averaging down; there's no guarantee that that's going to come back. Of course, there's no guarantee that the US stock market's going to come back either. But you know, the US stock market has a history businesses have some at least there's some fundamental like, you know, weight to a business to owning a business, right? You can imagine it as like, imagine if I had a suitcase with $50,000 in it, and I'm selling it to people. At some point, you should never go below $50,000. Because there's something worth like, there's something in there that has weight, right? At the end of the day, crypto is like you're selling a suitcase, and it might have 50,000 and may not, and everyone's telling you what's in the suitcase.

And I'm not saying that it's worthless. I'm not saying that because there can be value here. The problem is that value is not going to be realized in the future. We're going to open the suitcase 20 years from now. And that's either going to be, you know, 50,000 20,000 or a million or 10 million or Well, who knows. Right? And that's the issue we don't know the value of this thing until the future. I own some crypto. Personally, I have a small percentage of my net worth in there because I'm hedging against this right. I think because it's so volatile, I don't know what's going to happen. I own some of it. So in case it does really well, I make money. If it doesn't, I lose a small amount. It's not going to; it's like a paper cut.

Right? So that's the way I think about that. And so for someone who's very heavy into crypto right now, if you haven't lost everything already, I mean, a lot of people have lost a lot of money in this, unfortunately, like, just try and think about other things like try and just get diversified if you want to if you're like always 100% Crypto, go to 50% Crypto, then like cut off some of it and put some of that into some income-producing assets. Just try and do something that's going to actually, I think, build wealth over the long term because, I don't know, with crypto, you can get fantastically rich with it. Or you could end up poor, and that's the thing. I'm trying to compress those incomes and get more of an average result that will probably be better for you in the long run.

Andrew

39:44

As much as people want to, you know, be skeptical of things in general, at least a lot of the companies in the stock market are forced and regulated to tell you what's in the briefcase. There could be fraud every once in a while, but it's far less than Certain versus the I like the briefcase idea because I'm just thinking of dealer no deal if people have ever seen that show the ladies open the briefcase and you just either you tear law, or you get really sad crypto does I think that's a really great illustration of how crypto can be for a lot of people. You don't know what's in the briefcase. Yeah, exactly.

Dave

40:19

Yeah. So I wanted to ask you a question. So I have a future daughter in law that is going to graduate from college. And so a little hypothetical for you. So she's 22, she's going to be a nurse. So she's going to have a pretty decent income. I've been talking to her about 401 Ks as a way to get started. And what would you tell somebody that wants to start investing in a 401k? What direction should they go?

Because depending on the company, you could have 50 things to choose from, or you could have five, and it can be overwhelming for some people. So, where did they turn to learn more about their choices? And how to get started with something like that?

Nick

40:56

Yeah, so the first thing, let's there's a couple of different things, we can talk about how much you are actually putting in. So your contribution, amount, or rate? That's the first thing I would say, at least to your employer match. If you don't have a match? That's a separate discussion; we can get into that. But let's, let's wait on that. So kind of more of a specific, what are your goals type question? Because if there's no match, then it's the question of like, well, do you want to buy a house if you want to buy a house in the next 510 years, you probably should be saving outside their 401 K, maybe you shouldn't be putting away in there and find a different retirement vehicle. That's the first thing. The second question is, okay, well, you're saying if there's five versus 50, the next filter I use is cost. Look at the fees, right?

Because they're if there's 50, I guarantee there'll be some in there that are one 2% annual fee, which is high. And there's I'm hoping there's no guarantee, there's gonna be some in there with a fee of like, you know, 2030 basis points point 2% point 3% or lower, ideally, lower, right. And if you have a good plan, you'll have ones that are low, right? So it's a question of finding where that first thing, I've used the cost filter, just to say, Okay, let's look at cost. And then, within that, look at asset allocation, right? Because I would rather you be in a, you know, less diversified, something that is lower costs than something that's like far more diversified, we have to pay a lot more; usually, that's not the case. Usually, if it's very diversified, it's also cheap, which is good. So I would say yeah, get diversified. So have broad equity exposure have some bonds, right? Think about, like, your asset allocation, your risk. That's, what's the answer? No one knows.

They say 110 minus your age. So if you're 20, you should be 90% stocks. If you're 30, you should be 80% stocks in that case. I don't know if that's right; every person is different. So kind of feel it out and see what's going on right now. If you were investing in 2020, this person wasn't investing in 2020. If they were this, they kind of know their risk tolerance now because they saw the market, you know, dropping 10% in a day. So it is kind of nice that we kind of now knows how much risk tolerance we have as investors. But yeah, those are the things I would say is, like, think about how much you want to put in for a second, just try to go low cost and then try to get diversified.

Like, those are the three kinds of core tenets. I hope that kind of steers the conversation in the right way.

Dave

42:50

Yeah, for sure. That's great advice. Great advice. So I noticed the last chapter in your book says, The most important asset, what is the most important asset?

Nick

43:00

Your time? Without a doubt? It's your time. Yeah. And so how you using your time, that's why even how I wrote the book was like, you know, where should you be focusing your time? And why is that important? Right. And I think there's this there's belief that oh, you know, there's never enough time in life and stuff like that. I'm kind of against that. I kind of more of the Seneca Seneca kind of change me on the shortness of life, he has this great book, which is very good. It's like; it's not that we don't have enough time; it's just we've spent so much time wasted. I even do this, too; I would consider myself a very productive person; I would say I've been relatively successful in my life.

And I've wasted so much time, you know, my life, playing video games, you know, being on social media, you know, watching TV shows, all sorts of stuff that don't feel necessary. Some of those things are good for culture, having references, having friendships, and having cultural references earlier today, Dave; before we started the podcast, you were talking about a Tommy Two-Tone song. And if I didn't know that, I wouldn't be able to connect with you over that, right? So I can build rapport because I have some culture. So there's not anything. I don't think everything we do culturally is a waste of time. If you're not trying to earn income and, you know, read books or something, there's no like, you know, higher culture thing. It's all out there.

But I think there are cases where, you know, you know, you're like, I just did that for nothing, I wasted time doing things. So I think there's plenty of time out there. It's just you have to use it properly. And you have to really kind of figure out what you care about. And the earlier you do that in life, the better because, obviously, as you get older, it's tougher and tougher, and you have less time. And so you have to make harder decisions with your time, right? So that's what that's the most important thing. And we only have so many, right? I mean, there are debates over how much we have. There's this whole thing about, like, humans, on average, having 2 billion heartbeats. The question is like, how do you want to spend those, right? And so you got to think about that, right?

Dave

44:29

That's a great insight. And I think that's the one resource that none of us can we can't buy anymore, can't get away from. You know, who knows how much we're gonna get, and we can't get more if we want it.

Nick

44:40

Yeah, exactly. Right. And it's like one of those things where especially I think about COVID and what you know how it really shaped my reshape some of my beliefs like imagining being, you know, 55 or 60 You're taking on one of your first vacations pre-retirement, you're out, you know, in the Italian Alps or something or you're out on vacation and this crazy, you know, a virus breaks out and now you know, You know, obviously vaccines aren't allowed to happen. And next, you know, God forbid you've died from it. And you didn't get to spend all that money you had all that time. And all you planned for all these things didn't happen.

Now, I'm not saying you should YOLO your life and spend everything tomorrow, right? But at the same time, there's got to be some balance of like, hey, we never know what's going to happen in the future. So maybe be a little bit more open. And a great book that helped me think about that. And this is I actually read this after I wrote the book; if I had read it before, I actually would have probably recommended it in there.

And I hadn't just I was zero, Bill Perkins, really good book. I recommend it for people who are starting to like to think about those types of decisions. Especially it'll be more useful for people who are getting older, right?

Someone who's like 20 years old, that's not really important. It can be helpful. But for someone who's older is thinking about, like, how you want to spend time last half of your life, let's say, versus the first half. I think die was a great book to kind of reframe how you think about money,

Dave

45:44

cool. Well, I'm in that category as the oldest person in the room, so that will be appropriate for me.

Andrew

45:50

So Nick, we really want to thank you for coming on. And all these great ideas covered a lot. And I appreciate all of the data and insights you added to this conversation. The book is called just keep buying proven ways to save money and build your wealth. People should go check it out anywhere else people can find you online.

Nick

46:09

Twitter, my handles @dollarsanddata, and feel free to DM me; my DMs are open; send me a message. I try to respond to all of them. If you have any questions, feel free to send me one. And then of dollars in data.com is where you can find my blog. Thank you, guys. Thanks for your time.

Dave

46:23

You're welcome. No, it was. It was our pleasure. We really enjoyed having you on here. We enjoyed the conversation today. So without 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, and we'll talk to you all next week

.

A

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