IFB208: ETFs and Dividends/Fees, Plus How to Navigate Changes in Financials

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

[00:00:00] **Dave:** All right, folks. Welcome to Investing for Beginners podcast. Tonight, we have episode 208, and we will discuss a great list of questions we got recently. And so, without any further ado, I will go ahead and read our first question.

So I have hi, Andrew. I've been listening to your podcast each week since I began investing in January; I've learned so much from your podcast. I have a few questions about ETFs that I'm hoping you could answer here or on an upcoming episode, does the expense ratio of an ETF ever change, or is it locked in for each share I buy? Similarly, does the dividend yield of an ETF ever change? Thank you, Joseph. Andrew, what are your thoughts on Joseph's question?

[00:00:43] **Andrew:** So let's start in case some of these are beginning just to tune in an ETF is an extreme exchange-traded fund, easy for me to say easy. And it's a group of stocks bought into a single fund, and you can buy one share of it.

It gives you ownership of those stocks. The most common ones you'll see are as a market index ETF. Let's you buy the entire stock market in the basket. So when you buy an ETF, you have to pay an expense fee. So if you are, let's say you bought an ETF that bought the whole stock market. So that fund would give you whatever those stocks values are, but they take some of it for themselves.

Cause it costs money. For them to deal with paperwork, to deal with the regulation and all of the administrative costs that go with collecting a bunch of people's money and using that to buy stocks in a group, in a vehicle called an ETF that all costs money. So there's an expense ratio for that. Does that change, or is that locked in, you have a long-term trend of exchange to answer Joseph's question?

Sorry, expense ratios have trended lower over the years. And so an example would be like target-date funds. Those have been able to lower their fees over the years because they've been able to use economies of scale. As they've gotten bigger, they can spread out more spread out costs over more people, which lowers the exchange rate.

The expense ratio is for everybody else. That would be the answer to that. The dividend yield will also change, which can depend on either the dividends that are held or the dividends held in the ETF. Those can change as the companies raise or reduce their dividends. Also, the price of ETF can change.

Which changes the yield, even if the dividend stays the same. So those would be the answers to those two questions.

[00:02:40] **Dave:** All right. So quick question then. So can you explain dividend yield quickly? So, somebody understands what that means.

[00:02:47] **Andrew:** Yeah. So if I'm buying, we could use stock as an example.

Stock from a company might pay a dividend. Let's say they pay $2. So if their stocks are trading at a hundred dollars, the yield is 2% because we're paying a hundred dollars. We're getting $2 back, 2% of that every year in a dividend. That's 2%. Now, if the price crashes, because down to $50 a share.

They're still paying the same $2 in dividends. Your yield has doubled. So now you get like a 4% dividend yield instead of two. And so that's how the calculation works. It tells you how much you're going to get from dividends every year. And that does tend to be more locked in because companies are very reluctant to stop paying the dividend or reduce the dividend.

Usually, they try to maintain that dividend, or they try to increase it. So if I'm buying a stock with a 3% yield, I get pretty happy myself because I figure I'm getting 3% of my investment back every year, plus however much it increases as time goes on. And so that's why, if you're looking at the long-term, I get excited about dividend yields.

[00:03:53] **Dave:** Yeah, I could sense the enthusiasm in your voice as well as the big smile on your face when you're talking about dividends. So that's always a kind of a dead giveaway—an interesting thing about ETFs. And one of the things that I think are intriguing about them is there are so many different flavors out there now, and you can find it just about anything, something that I was thinking about while you were talking about dividends.

Is there a dividend aristocrat ETF?

[00:04:18] **Andrew:** I bet there is. I would be shocked if there wasn't. Yeah, it'd be; I know they have like dividend increaser ETS,

[00:04:24] **Dave:** right? I'd be curious to know what the yield is on that baby. It's probably pretty nice.

[00:04:30] **Andrew:** Explain that real quick with that is the

[00:04:32] **Dave:** dividend yield

[00:04:33] **Andrew:** there.

Aristocrat,

[00:04:35] **Dave:** oh, Aristocrat, sorry. Dividend aristocrats are a special group of companies that pay a growing dividend over a minimum of 25 years. And they also have to be of a certain size. The house will have to be in the S and P 500. So it's a select group of companies. I believe it's around 60 companies are a part of that group now, is that correct?

[00:04:57] **Andrew:** I don't follow that. I don't know what the numbers are.

[00:05:00] **Dave:** I think it's, I think it's around 60 companies and yeah, it's, if you're a dividend person that is something that needs to be right up your alley to investigate because those rare companies that over 25 years, you've got to think of all the ups and downs the world, as well as the economy, as well as just about any sort of life circumstances, I've come across, we've had wars.

I've had a pandemic. You've had all kinds of market corrections as well as the great financial crisis. Presidents come and hear lots of ups and downs in a world. And those companies still keep chugging along and paying growing dividends. There's a special group inside that group called dividend Kings, which have paid dividends growing dividends.

That's a key, a growing dividend for over 50 years. And that is a much smaller group. I believe that's around 20 or so. And some of those companies have been paying dividends for many decades. Coca-Cola Johnson and Johnson. I think American water is the oldest one. And I think they're around a hundred years; they've been paying a growing dividend or something crazy like that.

It's there; those are select groups that it, needless to say, when you invest in a company like that, you're pretty sure you're going to get the dividend. That it's a big thing, but like Andrew was saying as a side note, the companies are loathed to give up the dividend such that they'll go to a, sometimes it's pretty extreme measures to continue paying the dividend.

And in a perfect case of point of that is Exxon recently they have been on the big-time struggle bus. They were taking on debt, like borrowing lots and lots of money to continue paying a dividend because they knew that if they cut that dividend, that was one of the only things keeping them afloat as far as people wanting to invest in the company.

And they understood that if they ever cut that dividend, they would. Big trouble because that's, they pay four or 5% yield on a dividend. So it's a big dividend. But anyway, when oil prices went down, the company got on the struggle bus, big time. And so there was lots of concern about that.

So that's just a small example of how extreme companies will go to continue paying that dividend.

[00:07:10] **Andrew:** Kinda crazy that for the longest time that was considered one of the best companies and the logic was always, people are always going to have to drive. Not,

[00:07:21] **Dave:** Apparently not.

Yeah. I know. During all the lockdowns of last year, there were times where I probably went two months without buying gas. Cause I'd never, I drove my car. It didn't go anywhere. I was on lockdown because my fiance I'm diabetic. So my fiance was like, you will not leave the house.

So I'm like, okay, so I didn't leave the house, so it didn't have to drive. So it was great. Cut down on my gas price and gas expense, but Hey, There are many other horrible things that we won't even discuss. So anyway,

[00:07:55] **Andrew:** as long as you can connect with us on the podcast, right? Yeah.

[00:07:59] **Dave:** Yeah, exactly.

All right. Let's go ahead and move on to the next question.

So we have been looking for an easy index portfolio breakdown. What percentage, if large versus medium call versus small-cap versus international value versus growth. Trying to be aggressive with very little work set and almost forget type I'm 34 long-term retirement goal. So that's a great retirement goal, and I love the set and forget it idea.

That's great. Andrew, do you have any recommendations for them?

[00:08:33] **Andrew:** I guess I'm more of a hands-on type, so maybe I wouldn't have the best recommendation. You might have one better than me, but it does.

Show what you can do with the ETFs we were talking about earlier. Cause I'm sure for sure, you can find an ETF for each of these themes. And so, just by buying those ETFs, you can quite easily set your percentages, whatever those, whatever you hope those to be.

[00:08:56] **Dave:** Yeah, for sure. So I'll throw this out there. So when I was working at Wells financial advisor that I work with, one of the first things he talked to me about was setting up my 401k.

And so he walked me through this kind of idea, and because I wanted to be a little more aggressive, we set it a little differently than he would normally do. So the way we set it up as we did 40% large-cap ETFs. We did 20% medium cap ETFs, and then we did 10% us small. ETFs. And now we did, another 10% in international ETFs.

And then the balance was leftover, which is, I think, around 20% we did a mixture of bond ETFs. And so that's the way we set it. And we use the choices we had available in Wells Fargo as the menu for our 401k. And so, it didn't break down between value and growth. They may need it now. But at the time, they didn't, but there are many different ideas that you could go.

But his idea was that if you want to go more aggressive, then instead of using it. Traditional 60, 40 splits that a lot of portfolios have advocated before the last few years. That was a traditional mix. If you will, his recommendation, if I wanted to be more aggressive, was to definitely. Do more stocks than bonds, and to do a bigger portion of the portfolio is a little riskier type things like medium to small-cap and international because they tend to have a lot more volatility to them, but they also have.

Greater capacity for growth in the long term. So that was his recommendation. So that would be something that I think would probably be a good starting point for somebody. If somebody wants to follow that kind of recipe, if you will, as far as these specific ETFs, that's not my bag, so that I wouldn't feel comfortable suggesting, Hey, buy this one and buy this one and buy this one.

That's not my thing. If you go on Google, I know you're going to find a million different recommendations of different kinds of ETFs that would fit the bill to help you get down that path. For sure.

Do you buy ETFs now?

I do not. That is not something that I do. I have them in my 401k, and in the past, I had them before I rolled it over.

But no, I do not individually buy ETFs.

[00:11:22] **Andrew:** No, I don't either. And so that's probably why it's a good idea. We don't give specific tickers, but as you said, Google is your friend. Looking back now with everything, I am curious how he set the percentages the way he did, and there is something.

We can glean off that it is more like making the mirror the S and P or something.

[00:11:43] **Dave:** I think it was, I think it was some of it, he was trying to mirror the S and P, but I think some of it too was he was trying to take around. He was trying to take around 30 to 40% of it and move it towards companies with more potential for more growth.

The 40%, the idea behind the 40% for the large-cap, was going to be more of the stable portion of the portfolio and the one that would see less volatility, but it was also going to be. I would expect to get good returns, but it would also pay dividends. And so, even if the large caps struggled a little bit, you're still going to get those consistent dividends, though.

It helped con you know, continue to grow that portion of the portfolio, but the medium to small-cap and the international was where you could see. Some big growth, because those were the potentials for the ten baggers or better, or in those kinds of companies, just because of the nature of mathematics and them being much smaller companies of, them.

Doubling or even ten baggings is a greater possibility than a company like Amazon. That's 2.4 trillion; it's this, the possibility of that doubling is. So anyway, that was his idea, and he recommended that he felt like that would give me enough growth.

Make me feel like I was aggressive, but it still gave me a margin of safety with the combination of the large-cap and some of the bond exposure that it wouldn't be super volatile. It wouldn't be putting, pushing all your chips in on, companies from Russia, you kind of thing, or something like that.

So it still would give you maybe some exposure to some of that. If that's really what you wanted to be more aggressive, but also, still make sure that you just eat, you weren't going to ride the ride, the rollercoaster of stuff. And, looking at my ETF was not something I looked at regularly.

I just checked it every quarter, and I would rebalance it every six months or so. I would just-auto; I would set it to automatically adjust back to the proportions that I had set so that it would just, it would do that for me automatically. It was cool.

[00:13:57] **Andrew:** Yeah.

And I would think that if you're planning to rebalance or just playing the set and forget it, I almost think if it's truly set it and forget it, it's so much easier to do—a market index fund, like an SMP and then maybe a little bit international. Just call the day. Yeah. If you're doing the rebalancing stuff, then it makes sense to have the different categories.

So you can rotate from time to time. But man, if it's set and forget it, why make it more complicated, at least to be right.

[00:14:28] **Dave:** Exactly. And, if you do something like that and you just, you do the two that Andrew was suggesting a, you buy a market ETF and maybe some international to get some possible exposure to that and get a little aggressive growth kind of idea.

You're still, even over the last few years, you're looking at 15 to 18% return just on those ideas right there. So that's nothing to sneeze at, what's easier than that, and you, you can commit to it and put money in, regularly. It works slick. So yeah, if that's the way you want to go, and it'll work out for you.

I'm not sneezing now; I'm either me either. And the other nice thing is that a lot of this is accessible now through just about any brokerage you want to use. And the other idea is that even though Andrew and I are not ETF gurus, there are many. Educational resources and guidance that you can get from your brokerages will help you maybe track down or narrow down some of the ideas.

Suppose you're looking to do something like this if you want to find the best or maybe two or three of the best. Market matching ETFs, go to your favorite brokerage. I E fidelity Schwab, whoever it is, and do a little research on their platform. And you'll be able to find some great ideas through them.

And they'll have lots of great resources to help you learn about the dividend yields they offer. What kinds of expense ratios they have, what the minimums are to invest in some of the ETFs, how long the ETF has been around. There's lots of great stuff. That'll help you learn as much as you can about them.

[00:16:09] **Andrew:** Yeah, no doubt. So I'll read the last question here, but it is long. Okay. I got time. Okay. Says Andrew first; I would just want to thank you. And Dave's for your help and dedication to making a podcast for new investors. I know we all appreciate the content you provide us, in all caps here for free.

I love that. Even though COVID we are right now, I feel at a high point in the market, just based on how well the housing industry is doing. And I bought some SPY in February, and I'm up like 19% or a ridiculous amount. So when the market is at a high point, let's answer this question first day of it.

So he says, so when the market is at a high point or even at the peak, do you usually still see. Many of these companies are valued below their intrinsic value, or do they tend to rise with the rest of the market?

[00:17:00] **Dave:** I would say that the rising tide tends to raise all boats. So I think you see less of them when everything else is up.

You'll still see a good portion of them, but usually, those are really out of favor companies or really out of favor sectors. But yeah, the rising tide generally tends to raise all boats.

[00:17:21] **Andrew:** I, yeah, I think I would mostly agree with that, but it depends on; I guess you have to be careful because I don't think every bull market's necessarily the same.

And so even if you look at 2020 and 2021, there were so many themes between the safe work from home stocks, which turned into the reopening play stocks, which turned into. Whatever the heck 2021 has been. And yeah, I think you can always find value, but I think maybe the value you hope for isn't always the one you'll get.

So the deals you could have gotten in 2019 will not be the same deals you're going to get today. So it would help if you had a change a little bit, how you view them when the market is so much higher. You have to be careful because. A lot of times, really great companies will be more expensive.

And sometimes you do have to pay up for it; that said, you don't have to start buying companies at 200 price-earnings ratios, So while yeah, it might be harder to find that value that you hope for. You can still find a way to do it, in my opinion.

[00:18:32] **Dave:** Yeah, you definitely can. You need to look no further than Facebook.

Six months ago was considered, had dropped into the air quote value stock arena. And I think it was trading at a PE of around 25, 26 at the time. And. Know, you look at it now, and it's gone up, I don't know, 30 or 40% since that time. So you know, it depends on your definition of value, but I agree with Andrew.

[00:18:58] **Andrew:** At that time, or even the time now with the average PE for the S and P I like 35, what's a 25, I think at twenty-five PE it didn't look good in 2015, but twenty-five PE when the average market PS 35 something that sits, consider.

[00:19:14] **Dave:** Yeah. Yeah. That's a very good point. Very good.

[00:19:17] **Andrew:** Before we move on, we Priced earnings for somebody who doesn't know what we're talking about when we say PE. Okay.

[00:19:22] **Dave:** All right. So the price to earnings is a ratio that you could use to give you an idea of a company's relative value. And in essence, it's the price per share. Over the earnings per share.

The earnings per share of a company is basically the bottom line or the net income divided by the outstanding shares, which gives you earnings per share. And typically, the way you look at it is you will divide that by the price per share that it's trading in the market. And generally. The lower, the number the cheaper the company is regarded, and the way to look at it is if you have a PE of 10, for example, then you're paying $10 for $1 of a company's earnings.

And so that's the way you look at it. So when we're referring to Facebook earlier, that means we are paying; we would have been paying $25 for $1 earnings. Facebook. And if you look at a company, I can't think of a company off the top of my head, but I was looking at a company a few days ago, and their PE was around 175.

So that means that we would be paying $175 for $1 of earnings for that cost. If you compare that to Facebook, you have to. You have to get into this comparison of whether you think a company A is worth more than company B, and it becomes a whole other conversation. Still, it's a; it's an easy, quick, easy way to determine whether you think a company might be expensive.

[00:20:53] **Andrew:** Yeah, and I think you might've posted this on our Twitter, but you talked about how you can flip the P, and it gives you the earnings yield. So to stay in nerd for five more seconds if you're the, say that Facebook was going back to paying $25 for a dollar of earnings, if Facebook paid all of their earnings in the dividend, you could flip that PE of 25, 1 divided by 25.

That's 4% of that. There you get your four percent dividend yield, which is the same as the earnings yield. So you can think of it that way too, where you can think of P you can also flip the P and I don't know when that, when I made that discovery, I know when you tweet about it, there was some excitement about, wow.

Okay. Yeah. I remember learning that as a beginner. I was like, wow. That's what that stuff means. Cause everybody throws PE around. Nobody takes the time to describe it. So I thought that would be helpful. So anyway, Answering the second part of the question here. This is from Ben. He says I was also looking at a company.

I believe Xerox had decent numbers on Finviz, so I wanted to look into their 10 K report. And found something very odd. I looked at the most recent 10 K, which I believe is 2020 looked at the previous five years. And now that's the earnings and revenue they posted three years ago on their 20 17, 10 K did not match what they had in their most recent 10 K. I found less PR incredibly peculiar.

And did you know how or why this could be? I Googled the company and found that they were caught up in a scandal in the early two thousand where they had overstated their earnings. Sorry, I overstated their revenues for the past five years. That was a huge red flag for me. And I'm decided that there was too much risk for me, but I'm wondering if that could be that they were caught up in some scandal recently, or if there was a reasonable explanation for that.

[00:22:39] **Dave:** Without diving into the particulars, I would admit, I have not read through Xerox's 10 Ks, but I think this brings up an interesting question. And without looking at it, I'm going to go out on a limb and guess that they get audited. So the 10 K's get it audited. And they also will go back and audit pre prior 10 Ks, even after.

They've already been audited and posted. So there is a chance that something happened that the auditor caught, and it could have been an honest mistake. It also could have been that they overstated their revenues like they did prior. And when they got caught, it could be; it's probably one of those two things.

They either did a booboo, a mistake or intentionally misled people and stated them as higher. There were, there's also been accounting changes on how some revenues are accounted for now. And I honestly have a look back to notice differences from the prior year to a current year, but some of how.

Its catalog has changed a little bit with companies going forward, but that doesn't mean that they won't go back and adjust their financials to represent those accounting changes. And that could be what Xerox did as well. So I don't want to throw them under the bus. I am doing my due diligence, but you can keep an eye on it; I would agree with you if they have a history of doing this.

And especially if management weren't changed since that period, that would be something that'd be like; I have to be suspicious of anything like that. So what are your thoughts, Andrew?

[00:24:17] **Andrew:** I would agree with that. I will look for red flags over if it's a normal thing. And then I'll also look at it on a sliding scale of, are we talking about like $10 million or $10 billion?

What's the scope of the change that was restated. And that tells me a lot more verses like it's not uncommon to see it restated like this where it could be a potential red flag; I think it is the size of it. And like you said, the reputation of management and how often this happens.

[00:24:48] **Dave:** Yeah. To try to determine that, an easy way would be to look at the current 10 K and. Do a control F search for revenue or adjustments or accounting changes or something along those lines, and that'll help you. That would help you narrow down a lot quicker—specifics of maybe why some of these things happen because.

If they did make changes via accounting, or if they were caught with their hand in the cookie jar and they had to make the changes, there's going to be something in there. That's going to the sec is going to tell you or the auditor are going to tell you that, Hey, we had to make these changes for this reason or whatever it may be.

I haven't heard anything through the news about anything along those lines. I don't necessarily follow Xerox very closely. So it's not like it; it could have happened in it, know, slipped under my radar. That's, of course, certainly possible. But those are some things that would help you maybe narrow down your search; it may be not for Xerox, but in the future, if you're trying to go through a company's 10 K, this is a trick Andrew taught me years ago.

The control F is like your greatest friend because it helps you very quickly. Narrow down different things. And the other cool thing about it is you can use this on just about anything. I use it on earnings calls. I use it on financial reports. I use it on other articles. I may read about a particular company.

So if I'm looking for specific items about a particular company and have four or five tabs pulled up, I will. Cycle through all the tabs, use the control app to look through that particular piece of information to see what kinds of stuff I can learn through a group of things. And it helps the search a lot.

Not saying you shouldn't read through the financials. You definitely should, but if you've already read through them and now you're trying to go back and do a little more finite, narrowing down certain information. That's a cool little trick.

[00:26:46] **Andrew:** Maybe next week I can do some Excel shortcuts.

Ooh,

[00:26:51] **Dave:** easy, easy killer. I don't want to get people too overheated.

[00:26:56] **Andrew:** Keep it PG

[00:26:56] **Dave:** for now. Yeah. PG for now. So that would be interesting. So do you have any other thoughts on Xerox or any.

[00:27:06] **Andrew:** That pretty much covers that. If you want to go deep into the weeds, we have plenty of blog posts on accounting. On auditing and revenue recognition, even you could search it all on our website, these are just great questions, and I'm on the thank Joseph and Ben for writing in and the other dude on Facebook rather than these are all great.

And it's great to see people picking up the material and moving forward with it. Very exciting. And we're happy to answer these questions for people.

[00:27:35] **Dave:** Yeah, we are. We love helping you guys, and we love seeing all these great questions come in. I've said this many times, and I'll say it again: the quality, depth, and intelligence that people are.

Asking us these questions is just astounding to me. I think back on when I started; I wouldn't have asked these intelligent questions. I would have been like, I, I didn't know. The learning that you guys have done is impressive. So I applaud you for all the hard work and effort.

You guys are putting into this and thinking through some of these ideas; they're great ideas. And some of them challenge us and stretch us to come up with our thoughts on helping you answer these questions.

All right. And with that, I will go ahead and wrap it up. So that will be it for us tonight. So we thank you guys for again taking the time to write us these great questions, either through the website, Facebook, or Twitter. However, you can reach out to us. We're here to help in any way that we can.

So please continue to send us these great questions. Go out there and invest with a margin of safety emphasis on safety. Have a great week, and we'll talk to you all next week.