IFB211: Brokers, Index Funds, and Cash Flow Statements

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

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.

[0:33] DAVE: All right, welcome to Investing for Beginners podcast. Tonight we have episode 211. We're going to go back to the well in terms of requests for questions that we got recently. So, without further ado, I will go ahead and read the first question, and then Andrew and I will do our usual give and take.

So here we go. Hi, Andrew, I just started listening to the investing for beginners podcast, and I didn't know where else to get in contact with you. My wife and I have a TD Ameritrade and were wondering, the recommendation is Different for every trade and is that the same across all brokerages. Thank you, Christian. So Andrew, what are your thoughts on Christians questions.

[00:39] ANDREW: The brokerages I use or do not charge me to make trades. So you know, obviously, you want to open a brokerage account if you want to buy stocks, you want to invest in the stock market, buy ETFs, anything of that sort. And so, the ones that I use personally are Fidelity. I use Merrill Edge; I use ally invest. One more than something like Schwab. So they all work pretty well, but none of them charge. Are you getting charged to charge?

[01:12] DAVE: No, I am not getting charged. I use Fidelity and Schwab, and I do not get charged for it. So I strongly, strongly recommend both of them. They're both super easy to use, easy to open the accounts and do the funding, they have some pretty decent information on there and learn about different things we want to pick both of them also offer the stock slide or partial shares of stocks which I think is really beneficial, especially if you're starting out, you don't have a ton of money to throw at something like Amazon, at 3400, plus shares and dealing $50 You can still buy $50 with Amazon. It also allows for dripping on the stock. It's super easy to do. So yeah, I'm a big fan of them.

[02:24] ANDREW: Yeah, me too. As of now, recording this, by Merrill and my ally, they don't do the partial shares like Fidelity and Schwab does Schwab's menu. I guess you want to say for the partial ownership; it's a little more limited. I think they're just s&p 500 right now. Whereas with Fidelity, I did a company that was not in the s&p 500. Like, literally get a fraction of a share of something. So that's really cool, and it helps; it definitely helps anybody just get their feet wet, and it's something that wasn't around when I first.

[02:41] DAVE: Yeah, it's pretty amazing, and they have, they both have pretty good apps, And they can use your phones as well as the websites or websites to make any trades, and be sure our other podcast guests, business, proceed with great recommendation allow them to do that kind of stuff on your computer as opposed to on your phone because they give you a speed bump that keeps you from trading in and out of companies all the time like it's all because it's so easy to do. So that's something that I do, and I recommend people be able to do that as well. I checked my portfolio on my phone, but I don't have a trade on my phone.

[03:20] ANDREW: That's good, as far as keeping like an arm's distance away, so don't do anything to the rational

[03:37] DAVE: Right, exactly like when I saw what happened with PayPal the other day. Nooo, but yeah, I chose to withhold. Yeah, but I think, with so many options out there right now. That is, If you have the opportunity to open an account that doesn't charge you, I would highly encourage you to do that because it's just another way for you to make more money in the long run, instead of giving TD Ameritrade part of your money go to a group, there's so many that don't charge, we're not going to mention one of them, but there are lots of them out there that don't charge, and if you can find one that will work for you that doesn't charge yet, by all means, take advantage of that just because it's more money.

[04:09] ANDREW: Well said. Well said. I'm gonna move on to our next question. This one says, Hi Andrew, I have recently started my journey.

I started looking at individual equities, but it felt rather tedious. I found myself gravitating towards a few known instruments, specific to my field that was a bad idea in terms of diversification, but the problem starts when I look into index funds, index funds I'm benchmarking the same index and yet different turnout return for understand the ongoing charges vary between funds. The difference is mostly under one percent. And what is the reason that one point 75% over a three-year period, while the other gives 35%, and how shall I select the right fund? Thanks a lot, a consistent listener.

[04:54] DAVE: So yeah, that's a really interesting question, so Andrew and I talked a little bit about this off-air before we came on, and my thought is that the reason why we don't have a whole lot of information is going here. So these are some ideas that we came up with. The first idea is that the index fund the reason why one would have so much of a greater return is likely because it's, in other words, they're using debt to amplify the return is getting versus the other one. And it's the same company in competing indexes. There are zero other reasons why other, especially if both of them who Google. There's really no difference in one index fund versus another return. But if you add depth to that was basically doubles or triples to return that index to get that, that would help explain why that was elevated over the other ones now. That's not a panacea, and certainly no, we've talked about this a little bit in the past; using something like this is dangerous. At the very least, and it can be extremely dangerous if you really get into it because it can amplify the up, but it can also amplify now. And then you're talking about two weeks ago, would you amplify that down and getting back to the break-even, is that much more difficult. And so I'll let him do the numbers because he's a smarter guy than I am. But it's no panacea. So, what are your thoughts?

[06:34] ANDREW: The only thing I could do, it's got to be one of those, and one of them's not. And so you want to make sure you're not getting into an ETF. That's a horrible, horrible long-term investment.

The only thing that popped into my mind. Maybe you know you mentioned the index having Google; they do have equal weight indexes versus the regular s&p index. Such an equal weight. Every company, and let's say the s&p 500 by, equals $20 US dollars versus the actual s&p 500, which is what we all refer to as the market, that one will buy the whole market based on how big they are. So, Microsoft, Google's, they're gonna get a lot more shares, and those will be bought, but the index that company likes is actually not such an awful example; you get the gist. So that could be another reason, but, yeah, just to talk about your point. You know, if you're not sure, make sure you're buying an ETF and make sure it's not leveraged because, as you said, the more you lose. The more the gain. That's now leaving this safe, that's, that's where all that. So, you understand that because an ETF that has leveraged has done really well over the past six months. Over the next six months, and certainly not over the next ten years.

[08:12] DAVE: it can be very dangerous. So the second part of the question is how do we select the right fund. And that, of course, is the $24,000 question, that's what is still is how do you select the right fund, and this comes to the same kind of idea that you have to think about when to start investing, what kind of industry.

What kinds of things you want to invest in, and the world of index funds and ETFs, offers a very wide palette to choose from. And it really comes down to what's your risk tolerance, and what kinds of things.

There are lots of different ways you can do it and lots of ways you can slice it; I think, really, to start with, I would work if I was doing it.

This is not investment advice. This is how I would do it if I was doing it, is I would try to find something that matches the s&p 500 and something that massive magazine, NASDAQ, and something that matches the Dow. Then, if I wanted to go beyond that, then I would probably try to pick a different, there's something that was, that appealed to me, whether it's just a lot of random things whether it's grocery or whether it's airlines or whether it's oil, maybe something you know, something along those lines. But if I was doing it, then the majority of my money would be in the index funds that match the Dow and the Nasdaq. Because to me, those are air quotes safer investments over the long term. And then if I have to branch out and risk some of my money on some of them, I guess more, if you will, then I will put up a much, much smaller portion of those types of things. Just because sometimes it's better to scratch the itch and do that even if it's a small amount, and kind of stepping out of your comfort zone to do some of those things, and that kind of stuff, but the majority of my money with the safer, long term returns, because we've talked about this many times and you can pick up just about any book, or they'll tell you that the s&p 500 or the stock market in general, over the last 100 years. Turn around 10%, give or take, dividends, and so over the longer that's going to win for you. And if this is something, that's how do you find these funds. The easiest way that I've found is looking at a website called ETF. COM And they have a section on there that allows you to speak a little bit about how different plus work shows you; he sees that you have to pay for these funds are going to charge you to manage these funds for you, generally, it's very small, but it's still something to be cognizant of so if you're looking at two competing funds that match the s&p 500 for example if one is earning 12% Over the last three years, the other one to 13% over the last three years but present one charges you

know it's kind of lost. But if the other one charges you for it. You want to go with the lesser, the lesser of evils.

It also helps break down what is good, even the bugs, and how they break down like Andrew was talking about there sometimes it's fun. Sometimes there's one that literally just matches the index matching. So those are all things to take into consideration when you're picking a fund because it's likely if you're buying Microsoft or Apple or Google, you have to know what you're buying, and you have to do the same thing when you're looking at index I can't just go as buy this particular thing, just because I have to do a little bit of research and it doesn't take long to go through this website that I'm talking about. There are probably other resources out there; this is not my field of expertise, but there are other websites out there that can help you, but this is the one that I have found that I've looked at, just to kind of get information about different conditions. I found it useful, so Andrew, did you have any thoughts.

In regards to me that.

[12:25] ANDREW: I've always had thoughts.

[12:28] DAVE: Okay. Yeah, true.

[12:33] ANDREW: Well, the only thing I would say is, again, as a beginner, I feel some of the things I hear are kind of frustrating to not be told what to do. And the fact matter is as it's not as easy as saying this is how you make a pie. You're gonna bake the pie; what will do well in any season it's gonna change. And so sometimes big businesses will do really well, little businesses will do very well, sometimes the stock market won't do well, sometimes they'll do very well. And but there always be different pockets of the stock market that do better than the others. And so, you know, if you just want somebody to tell you what's the best

possible that's like saying, How do I pick the best sports team that wins. So, this is not the way the stock market was in this works. And so that's why we say pick what fits your personality.

Am I okay taking more risks, understanding as far as I could also have more rewards. So I want to take that flip side of that don't want to be a little more conservative, probably not see my money grow as much, but also not see it crashed down at times too. So that's why you have to put yourself into that perspective, and then you figure out what makes the most sense. And the majority of saying that you want to have a portfolio that is supposed to be the s&p 500 or has some of the better companies in the s&p 500 index. There's a reason why the best of the best, and so that's why you want to try to figure out why you're just you're not going to get the best. You're not gonna be able to find the best all the time. You have to figure out what. So there's a ton of things you can select from. They have different styles. I did a blog post recently on what's called these factor ETFs. And so you can buy growth value, momentum. You can go big, small, you all these things. And I would just before you dive into the crazy flavor way to say, like, slow down and understand the basic understanding of some of these more.

You have to be, because this, I think, in general, if you're not careful, a lot of them actually don't do what you want them to do, like buy an ETF because you want to just have a bunch of company in your portfolio. Just buy and hold, and you just want to have those companies to compound money for you. A lot of ETFs these days actually rebalance every quarter. So you think you're buying Google this month. And now you're at Microsoft, and then you're out of Microsoft.

And a lot of ETFs, so it's really frustrating to see that investors think they're getting a buy and hold of a basket of companies, and that's not what they're getting. So you have to be really careful and, and it's gonna depend on.

Why because you know what I think makes sense for Dave or for me, doesn't mean it makes sense for you, and you got to figure out why that is.

We were talking, pretty recently Dave, how to know when to sell, right,

[15:55] DAVE: Really, really hard and very hard,

[12:27] ANDREW: That comes into the back comes into play as well. What's your timeline right like dividends along the way are you trying to get in and get out five years, I think, that changes what you buy here. So, I think whatever they've said just wasn't what I'm trying to say. It is worth it to take the efforts. Be wary of this. And that should do it. Because, as I said, every season. Businesses in the stock market will go up, and things will be better; they'll be worse. And when things do worst. That's when people tend to freak out. You're gonna regret the fact that you didn't take the time to figure out and put yourself in the investment that was best for you.

[16:48] DAVE: Well said, the last thing that pops in my head to think about as a way to give you give yourself an idea of what kinds of things you could invest in and look at what a lot of times, those are funds or ETFs that by investment managers at the company or by the company that is managing.

And a lot of times, those could be great starting points. And in a lot of cases, it could be the place to choose to invest because the company is matching, hopefully. And if that all is occurring, and you're at the company for 10 15 20 years. That's a great place to start; it takes a lot of the stress and pressure of having to look for all these different choices that you can think of; it doesn't mean you can't assess outside of that you choose to look at what the building a portfolio out of funds, but it doesn't mean that you can't scratch the itch of buying an individual company as well so there are lots of different options.

I think it all comes back to thinking about what it is you want to get comfortable with how much risk you are comfortable with. Once again, money is a personal thing. And so, I can tell you how much salt I like steak and steak, but that doesn't mean we're gonna agree. So doesn't mean that one is better than the other, and it comes down to one's preferences. Just have to think about those things when you're investing and stick to what's best for you.

Alright, so we've kind of built, we've kind of dug that horse or horse it's, or dig somewhere's horses

[18:39] ANDREW: Not doing anything like that.

[18:41] DAVE: Alright, moving on. Hi Andrew, I'm a recent listener. Thanks for all the information. I've been looking through financial statements looking for good value stocks to invest in; one thing I see on the balance sheet is total Cash From Investing, and total cash from financing, increasingly, find the companies that have good earnings growth, but the Cash From Investing in trending downwards or negative, how should this affect someone's analysis on company's future. Thanks, Adam. So Andrew, what are your thoughts on and Adams, a very interesting question.

[19:20] ANDREW: That's a good one. So, you know, this one's obviously a little bit more advanced beginner shut off from here; I feel like you've done today. So what he's talking about is the cash flow statement. So this is one of the financial statements that companies must release and disclose all of the information about the company financials and the cash flow statements to tell you where the cash is.

So there are three sections to that like I mentioned in production, there's cash from operations, there's Cash From Investing, and cash from financing.

So he mentioned companies with negative cash from investing cash from financing. That's actually not a terrible thing. So cash operations would be anything that has to do with running a business, including working capital; we have cups, ice cubes, pitchers,

[20:20] DAVE: lemon,

[20:21] ANDREW: sugar, water, lemons, So that would be part of it, we would have to pay our workers that would be part of the income statements, and all of that goes to the operations. And then you know you get the money that comes in and supplies, and then you have the cash that is coming from that.

Now, do you wanna grow, or do you want to open two lemonade stands? Now there's a couple of cities next to us. Well, in that case, we're not just talking about buying cups and pitchers, talking about, you know, making huge investments in brand new units. Yeah, I mean, all that stuff. Well, I guess that maybe I should use a store example because the lemonade stand was sound too expensive.

Yeah, so it was a store. Similar. A similar thing, right. These stores will be huge investments. So, when you're growing your business, you need expensive machinery to maintain the business. Those tend to be paid off multiple years and long-term investments. And so that's where that cash goes and then cash from finance. Would you take that in, or did you pay off debt? And so, I think dividends and share buybacks are also going to cash from financing. So you could have a company that's paying out dividends, and they would have negative cash from financing, And that's a good thing because if I'm a shareholder, I want dividends for my company. So those three main parts of the cash flow statement a lot of focus goes on that top part the cash from operations, and with good meaning too because you really want to know what's going on, visual unit in our lemonade stand. You know that we sell more lemonade, where we have to offer new products. And then those things all show up statement, and then we kind of flows. The rest of the picture becomes cash flows and earnings and profits and stock prices. So that's, that's kind of how I looked at those parts of it.

[22:47] DAVE: I don't think you've missed anything; I think the thing that I thought about when I think about the cash flow statement.

It's a little confusing because the way that they list them in the financial statements with tech a or the or the tech or the quarterly reports is it's always listed last, but it actually sits between the income statement or the p&l, then you have the cash flow statement, and the balance sheet, the income statement kind of flows into the cash flow statements which will balance sheet. The balance sheet is you have to think about that is a snapshot in time. It's not a living breathing document, the cash flow statement the income statement those are things that they update on a regular basis, And things are moving in and out, as the balance sheet is the show the financial position of the company at that particular time that they filed the report. And so you can think of, you can think of the cash flow statement as kind of like a checking account if you will. And it's really about the money that goes in and out of business, to allow the business to operate, and to enter the job of explaining all that the cash from operations is really, really the lifeblood of the operations of the business operate the business, the cash from financing is how the business finances. Make sure that it can continue to grow.

And the cash from Investing is the money that goes to the business where the financing is really kind of thinking about how they make up a gap and the cash operations, and the financing from investment.

Cash from Financing is really whether the company has to use debt to have enough cash to pay for the business it's trying to do, whether it's from an operation or from investing, and the other side of that is where there has to raise equity to pay for those things as well. And you also see things on there like dividends and share buybacks, but the top one. So the cash for the operation, generally want to see that, you will see that negative from time to time, and that's depending on the lifecycle of a business that's not unusual, but when you start seeing the other one is positive, that's not necessarily something you want to see because if you have a company that's growing, you want to see them putting money back into the business. See that negative, because you want to see them using the money that they're generated to invest back into the business, because if they're not, then it's not a positive for a quarter or a year, but if you see that consistent basis, then you have to ask yourself what are they, what are they doing, how are they, how are they going the business, and what point is this business at their normal lifecycle, and I'm getting used visa as an example, so I was just looking at these visa financial statements. The Cash From Investing in the company in 2020 was actually positive, but 2years prior to that, they were negative; when they looked at the cash from financing, all three years were negative because they paid a ton of money to share buybacks and dividends. In other words, they're taking a lot of the money that they end up giving back to the investors in those forms of whether it's a dividend or share buyback. And that's how the company uses the money because they are limited because of the nature of what fees it does; they have a limited need to reinvest back into the business as much as somebody else might.

Microsoft has to, Intel, Google, they have no choice, because what they're doing, they have to, but these kinds of positions, their businesses, they can add work, they could turn the lights off, and the business still makes money because the way it works, but I think when you're thinking about analyzing companies you have to think about several things. Number one, you need to think about where's the business in the lifecycle; in other words, this is a young business or an old business, is it in a new kind of sector or niche, or is it in an old for kind of reoccurring grocery business it's been around for 75 years. Their capital needs. In other words, the money they need to reinvest is way different than it is for somebody that just went public two years ago, and they're in FinTech, or they're in cloud computing; there's a lot more. There's a lot more money they need to spend. So all those things you have to think consideration about, but it's not unusual to see. See, it's trending downwards or upwards; those are just things we have, especially on a quarterly quarter by quarter basis; you just, you have to think about that usually that helps a little bit.

[27:47] ANDREW: Yeah. To add to what you said about trading, I was watching operations trading upwards. But as you said, it can fluctuate, and that depends on what's kind of investment they make. Right. And so that goes for investing and financing too. I think you covered really nicely with the financing; as you said, if it's positive and there's accumulating cash, then what's the point, the business is supposed to give cashback to the owners, not just to stock out it for no reason. I think that's all I've got.

[28:21] DAVE: Me too. Alright, with that, we will go ahead and wrap up our conversation for this evening. I wanted to thank everybody for taking the time to write the question. To do this, and hopefully, you guys are takeaways from all this, please keep your comments; we love doing this. So without any further ado, you guys go out there and invest with the market emphasis on safety. Have a great week. We'll talk to y'all next week.