IFB212: Investing in "Safer" Investments, Picking ETFs and Individual Stocks, and Bond ETFs

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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] All right, folks, welcome to Investing for Beginners. Tonight we have episode 212. And tonight, we're going to answer some great listener questions we got recently. So without any further ado, I will go ahead and read the first question. And Andrew and I will do our usual give and take.

So, Good morning, guys. Great podcast; I have a question about how much to invest in the stock market. Well, the more I learn about the stock market, the more confident I become in it. However, I still have a majority of my savings in a money market account, 80% in savings account 20% in the stock market; I am slowly starting to divert more of a percentage to stocks and bonds. However, I want to put more of my savings into working in the stock market. And our investment vehicle has a yield of at least 3%. As currently, most of my savings are sitting in a savings account that is losing value in real terms. I am not just confident enough to dump most of my savings in the stock market. If you were to advise someone how to invest 80% of your savings, where would you recommend putting that cash to work in the market and or bond market if you are willing to incur a low amount of risk with a yield between three to 5%? Thanks in advance, Jay.

So Andrew, what are your thoughts on Jay's great question.

[ANDREW] A lot to unpack. So I guess first off, I'll start by saying I invest 100% of my savings into stocks. And that's because I have a very long time horizon. I think anybody with a time horizon longer than 20 years or so should. I don't see why anybody shouldn't do that. That's what I do. And it's simply because over the long term, the stocks do well, and they always recover. And because businesses do well, that said, so he's talking about investing 80% and wanting a yield of 3%.

Now, that's where the answer can become tricky because interest rates change. And so if we were to rewind, let's say like 1015 years ago, you could probably get 3%, by putting money into a savings account, you know, rewind another 25 years, maybe you could have gotten four or 5%, you fast forward to today, you're lucky to get 1%. And you probably have to switch to a no-name broker to do that. So, you know, he mentions how he's losing money in real terms.

And so what that means for people who are not familiar, you know, you have inflation, and I think a lot of us are familiar with that. But basically, inflation makes your purchasing power go lower. And so, when they talk about real terms, they're talking about inflation-adjusted terms. And so, even if you're making 1%, but inflation is 3%, then you're losing on real terms. And so that's kind of what he means by that. And so the answer between you know how you're going to find a yield of between three to 5%. Even if this question was asked, like three years ago, you could probably find some good corporate bonds trading in that yield range. And those would have been very safe and very low risk. Today, though, because interest rates are so low, all of the yields that go along with interest rates it's all pegged together. And so, to get a guaranteed yield between three to 5%, I don't think that's the right mindset to have. Wanting to have a guaranteed three to 5% isn't really the best thing to necessarily go for; I think it's really gonna depend on, you know, what's the time horizon.

So like I said, for me, my time horizons, 20 plus years, I go into the stock market, I'm looking for a 10% return, give or take per year, a yield of three to 5%. If you were to do that in like a dividend stock, you might end up in stock, that's kind of more risky, and that's why it has a higher yield. And you could even argue with that with bonds today, too. So I would say that today's interest rates, you probably won't get a low risk for three to 5%, you'll probably take on some medium risk. And so the question needs to become well, what's the time horizon? Because isn't worth my time horizon? If it's like ten years away, then maybe it's worth taking an extra risk and trying to chase that three to 5%. But you know, if your time horizon is like five years away, and then you need this money to retire, I don't see any reason to get a higher risk than something very low risk in that case. I don't think three to 5% is realistic. And that's why I would say shooting for that particular yield percentage is not a good strategy because it all depends on the timeline. And hopefully, that's clear.

[DAVE] It is. I think it's very clear, and I think I echo a lot of what you're saying; I think those are great ways to think about it. Let's look at a couple of other things. To kind of put it in perspective to kind of, I guess, frame what Andrew was talking about the 30-year yield on a Treasury bond right now, which is arguably one of the safer investments you could do out there is 100 around 2%, I believe it's between 2.02% and 1.98% over the last few days.

So another reason I know that is because I've been doing some deep DCF lately, so and that's what I use for my terminal rate. And those are not as high as what you're looking for. But they're certainly more than you're getting in your savings account. So there's that as a reference point as something that could possibly give you a better return that is certainly a safe investment, but to realize that, you're going to have to put that money away for 30 years. And is that really what you want to do? So I guess there's that question. So then there's another idea to think about is if you want to invest in bonds in corporate bonds, something that Andrew mentioned, there is the opportunity to invest in the only two companies that offer triple-A-rated bonds, which are the safest bonds that you could possibly buy on a corporate level are Microsoft and Johnson and Johnson.

And while Andrew was talking about this, I looked up Microsoft's latest bond yield for the bond; the latest bond or issuing they did when 2017 is 3.3%. And that's for a 30-year bond. So it's better than the Treasury yield. But you're still tying up your money for 30 years to get that 3% 3.3%. So again, you know, certainly safer than then investing in, you pick any stock, I know it doesn't matter. You picked something a little more exotic. Yep, there you go visa, you pick, well, maybe not pizza, but you, you kind of get what I'm saying so that picking a stock is going to have a little more risk, but it's certainly going to have way more yield than something like the Microsoft bond would have. So then I thought about Okay, what about something like

Johnson and Johnson, which has a triple-A-rated bond, but it also pays a dividend. It's a dividend aristocrat who has been paying a dividend for 50 some years and has been paying a growing dividend for 50 some years.

So you could argue that's a pretty safe company to invest in; they pay a dividend right now with a yield of about 2.5%, give or take. And so that's less than what Jay is looking for. But you would have the capital appreciation of the share, return, earning hopefully, better than two and a half percent over a period of time. So that could be a possibility. But investing in stocks is no guarantee. So there are no easy answers to this question. And like Andrew said, there's a lot to unpack here. But I think really; you need to think about several things. And it kind of, I guess, to just kind of keep beating the table that Andrew was talking about, you have to think about your time horizon; that really has to be the first thing you have to consider. Because that really goes into forming the decision that you're going to make about what kinds of things you want to invest in.

The longer the time horizon you have, the more ability you have to overcome any drawdowns that may happen. Because like it or not, the Believe it or not, for those of you younger that are listening to our show, the stock market does not always go up to the right. Unfortunately, there are times when it goes down, or things don't, or they just kind of fluctuate around kind of for a while. But there are also long periods of time where it goes up and does great like it is right now. And if you invest in something and you have a 40-year time horizon, you have time to recover if things go poorly with; if you buy Johnson and Johnson today, and four years from now, the stock drops 20%, you have another 36 years for it to recover, and it will. And so that is what you have the advantage of. Now, if your time horizon is five years, then the options become a lot more complicated. Because now you have to think about how much risk Am I willing to take for that yield that Jay is asking for? And if I have a five-year time horizon, and I want that kind of yield; frankly, you're going to have to step into more risk to get that. And so that's why it makes it hard to answer this question because we don't really know what the time horizon is. And that really has a huge bearing on what kind of decision you make, whether you invest in things like bonds, or keep it in a money market account, or whether you want to go with corporate bonds or Treasury bonds.

There are lots of differences there; there are some advantages to buying some of those things because they'll give you close to some of those yields you're looking for. But you're also sacrificing some of the gains that you could get by buying Microsoft or Johnson and Johnson or Apple or any of these other choices that are arguably pretty safe investments, but they're still going to have volatility to them. And so those are things you just have to consider when you're doing all these things. And it really comes down to your time horizon. As in how much risk you can stand and how much risk you can if you can stomach, and I think one of the things that maybe we don't talk enough about is kind of the idea of risk. And when you think about risk, you have to think about how much or how much you could be willing to risk losing.

And it's not about the stock price going down, because, like Andrew was saying, if you got a 40-year time horizon, and, and Microsoft loses value in the next couple of years, you have 38 years for that to recover, and it will, and even if the market goes sideways for a few years, it's still gonna go, it's still you're still gonna do well, because the company is a great company, and it's going to continue to do well at what it does. But if you're buying something that's a lot riskier, or it's in an industry, or a sector that is very speculative, at best, there's a chance the company could go bankrupt, and then you lose all your money. And so but those, that's, that's rare, but it's something you have to consider.

And so that's really what you have to balance is how much can I handle a drawdown or a loss in the price of the stock for a period of time? Or how much am I willing to gamble on whether the company will go bankrupt or not? And that's, I guess, something I would consider as well.

[ANDREW] That's a great way to outlay it; we talk about a lot about, you know, time horizons and how that ties into risk. And you might wonder why do I come up with this random number 20 year time horizon; if you look back at the data, I mean, we have data on the stock market all the way back to like the 1800s.

Basically, I mean, maybe 19 1910s, but stock markets have been around since the 1800s. So there are cycles in the stock market; just like the seasons, the stock market kind of can look like a roller coaster in the short term. But it's like a roller coaster that's pointed to the moon eventually if you look long enough, but in between that path to the moon, there's this roller coaster up and down. And so we can observe what's happened over decades and decades and decades. And so if you look back, you look at any five-year period, when you get in, and when you get out, it's pretty random.

And so even a ten-year period, there are times where you would buy, and ten years later, you could be even, or you could be down. But once you get to 15 years, and once you get to 20 years, go ahead and look, look back at the history of the stock market and crunch some of those numbers, you'll see that you'll make money. Anyway, regardless of where you buy-in, if you have that 15 to 20 plus time horizon. And so I think when you talk about, you know, Jay talks about what's the percentage of money and he's starting to slowly put more in the stock market, I think it's a great idea to like, increase that percentage over time.

And if you have money that you think you'll need, that you can't just leave it in the stock market to let it grow and compound and let it be volatile and move up and down. If you have some money like that, well, then you can just keep that kind of safer, and something really low risk or even in cash and the rest of it to grow and to do what it does well in the stock market. That's where all these ideas come from. It's not like these magical numbers pulled out of the air. It's based on history. And if you take the time to learn about how the market works, you can increase your chances of getting better returns and lower risks. But I think you have to switch away from the mindset to say I'm gonna earn this much.

And you really have to look, what's my reality? What's reasonable, and what are the investment options out there?

[DAVE] Well said, Very well said. Alright, so hopefully, that helps you. So, alright, we're gonna move on to the next question. So we have Andrew, Dave, maybe you can answer my question in a future video. I remembered an episode several months ago; Dave mentioned its investing strategy, where you invest a larger percentage in an index fund, SMP, and buy a smaller percentage in individual stocks.

I'm assuming if we did the strategy, we would want to avoid investing in some of the top holdings of the index. Would you altogether avoid individual stocks that are also a part of that index? Or only the companies in the top holdings? Thanks. This is from Moses. So thank you really appreciate the time you guys put into this or you. We appreciate you writing this in Moses. So Andrew, what are your thoughts on Moses' question?

[ANDREW] I think he was asking me, so I'd like

[DAVE] Okay, put it back on me. Alright, so here's, I guess my thought, Yes, I would definitely not. If you're buying the index, it kind of I, to me, it's pointless to buy the individual stocks that are already the main holdings of the index fund. The whole idea behind buying the index fund is you're looking to match the performance that those are getting. And if you're looking to outperform, then you'd want to buy Google instead of buying the index fund. If you want to, you know, put your belief In a company like Google, then buying the index fund that also has a portion of its earnings or return, based on other companies, kind of dilutes whatever you're going to gain from investing in Google, to begin with. And so, I guess my idea was to use the index funds or an ETF as your base. And this is what I'm going to put the majority of my money in. So let's just put some numbers to that. So let's say that I wanted to build a portfolio. And I chose two different indexes, one that matches the S&P 500 to match the NASDAQ. And I put 80% of my money in those two funds, and maybe I split it equally, 40% in each, the other 20% of the money I could use to invest in other things that land outside of those two funds. And it doesn't mean that you have to; I would focus more on thinking about what are the top 10 individual companies that are in those index funds and avoid investing in those separately because those are the ones that are really going to drive the returns for the index funds. And so if you're looking at a company, let's say I don't know, I'll just pick something, AMD or something like that. One of the semiconductor companies, if you're looking at investing in something like that, and that is only making up point; oh, two 5% of the index fund, by all means, go for it. And if that's something that you really, you know, feel that itch, and that desire to invest in, by all means, do it. But you're still getting all the great returns that you would get from investing in the NASDAQ Fund and the s&p fund. So I guess that's kind of my idea, or what are your thoughts on that?

[ANDREW] Yeah, that sounds reasonable. I mean, it's not something I do since I'm 100%. Stocks, individual stocks guy, but yeah, it sounds reasonable. It makes a lot of sense.

[DAVE] Yeah, I've done a little bit of research on ETFs recently because we've had so many people asking us questions about them. And I guess I feel like that if you are one of those people that doesn't have the time, or because you have kids, family and all the things that life throws at us, or you just don't just frankly, don't have the desire or the or the urge to learn about companies like Andrew, and I do, then going through the stress and strain of trying to figure out whether you want to buy Google versus Microsoft versus Facebook, you're just defeating the whole purpose of what Andrew and I are really trying to teach you. Really the most important thing is that you invest for your future. And if buying an index fund or an ETF is something that you can do on a regular basis, consistently, over the next however many years you're going to, you're going to be way better off than if you didn't do it at all. And I would rather have you do that, then go the route of deciding that you want to buy the latest, I don't know, you know, train stock that maybe doesn't do as well as you hoped it would, or some emerging market stock that is in some crazy, I don't want to pick on the sector because like it, I'll get burned,

[ANDREW] Let it burn.

[DAVE] Okay, so you pick some crazy BioPharm thing that is trying to create the next cure for, I don't know, cancer or something like that, which is certainly a worthy cause. But those kinds of companies can be risky. I don't know that much about Pharma. So, if I'm, if I'm speaking out of turn, by all means, you know, go ahead and blast me. But I guess my point being is that if you if that is something that really falls under your, your, your wheelhouse, so you really want to learn about that. So go for it. But if you don't, and you know, that you should invest in, you're listening to the show, and you're like, you know, I really need to start investing because it's a great thing to do for my future and my family's future. And but I don't have the time and the idea of learning about numbers and reading 10, k's and learning about the ins and outs of a company in the stock market. Just make your head spin, buy an index fund, buy an ETF, set it and forget it, invest in it every month, just like you would with your 401k, and be done with it. You're going to live a happy life, and you're going to have great returns, and there's nothing wrong with that, for some reason. The stock market game has gotten this kind of macho, you know, adrenaline rush, you got to do it this way kind of thing. It doesn't have to be that way. There are many different ways to slice up the investing game. The bigger idea is to find out what works for you and stick with it and do it on a regular, consistent basis because that's how you're going to get you to know to create wealth for yourself and you care for your family. So I guess that's my thought. Any comments?

[ANDREW] I don't know. I mean, I've wanted to rant on index funds for a while. So this could be a good given take.

[DAVE] Go ahead.

[ANDREW] I'll take the other side, just in the sense that people say you can set it and forget it. And I think there's a lot of danger in that because you do set it and forget it. But you need to understand how the market works before you do that. And so where I see a lot of trouble with that kind of mentality is, if you are doing that, and then you forget about your portfolio, and you don't look at it until we get like what we got in 2020.

Because that's the thing about the stock market is people will never talk about it until the time that it's crashing, and then everybody's gonna talk about it, and then everybody's gonna freak out. And then everybody's gonna figure, Oh, man, this is the time I should really know what's going on in my portfolio. And if you do that, and you see red, and you see losses, you end up doing what all the other investors do. And I see, so I think there's, there's a fine balance that needs to be done.

And you really need to, you know, I, maybe maybe I'm hanging out in like the wrong, like, the different spaces and you are, I don't see a lot of like, what you see, whoa, like, I'm gonna attack the stock market, and I'm gonna be the best investor you've ever seen. I think there's like over-religious blinding of indexing, and it kind of drives me nuts a little bit. Because I think it's irresponsible.

I think I think people do need to take responsibility for their money and figure out that I'm gonna learn this investing thing. I'm gonna learn what it means. I mean, that doesn't mean I need to be the next Warren Buffett. But if I need to understand what I own, why do I own them. And I think that they do going through that process can be very helpful for people.

[DAVE] Yeah, that those are good points. And I will, I will give you it would be irresponsible to not pay attention to what's going on. I'll definitely agree with you on that. I guess my counter-argument to your argument would be that the idea behind investing on a regular basis, on a monthly basis, and buying an s&p 500 fund, for example, as you do it, through the ups and downs of the stock market, you're going to get the same benefit that you would if you're investing in your 401k. So it's kind of the same idea. At least that's the way I think about it. Is it's not to be in, maybe I wasn't presenting my idea in the best well

[ANDREW] wasn't attacking here. I don't know why there's me about the whole index thing. And I know,

[DAVE] and I get that idea. I think the the the the responsible way. And I would agree with what you were saying the responsible way is to pay attention to what is going on with the market. But I think the bigger thing, and this is I think what I probably need to stress a little bit more about this idea, is that you need to be consistent, and you need to keep investing through the ups and downs of what's going on in the market. Because the thing that Andrew highlighted, which is a very key point to think about, is that people get emotional about investing in the stock market. And when things go, well, everybody wants to put their money in, everybody's talking about Bitcoin or whatever a great new thing, what shiny object is, and everybody wants to take advantage of it. But like Andrew said, when things are going poorly, then everybody's talking about it as well. And people get afraid and start taking their money out. And that's exactly the wrong time to take your money out; the right time to be putting money in is when prices are going down. Warren Buffett says this all the time to be greedy is when everybody else is being fearful. And that's when you can really get the best gains that you can possibly get. Over the last year and a half, two years.

For me, the best returns I've gotten were things I bought during COVID. When everything fell out when the bottom fell out, and it wasn't because I bought the greatest companies ever I didn't. But what I did, I got all these great companies on sale. And that's what happens when the stock market goes down. And so when you're buying an s&p 500 ETF or an index, and the price of that goes from just use these numbers from 100 to 50. And you keep buying it from 100 to 50. The next time you buy it, it's cheaper now, and when it goes back up to 100. Now you've made all that game, and you've, and you've changed you the price of what it costs you has dropped. And so, instead of it being $100 a share, now it's actually $75 a share. And when the price goes up to 125. Now you've made all that extra gain. And so that's really kind of where the magic of investing in the stock market really comes into play. Whether it's buying individual stocks or what There's buying indexes or ETFs. And so I would definitely agree with what Andrew was saying is that there's a glamour furcation of, of these kinds of funds. And there's, there's some danger to them for sure.

But you have to be somewhat cognizant of what's going on, it doesn't mean that you have to know the ins and outs of every single company that's in these indexes or in ETFs, but you at least have to be cognizant, aware of what's going on in the market and understand what's going on. But the biggest issue is you have to be consistent, do not sell when everything is falling apart because that's when you can make the most money. If you still have, if your life is not affected, and the stock market is going down, and you could still afford to put your $150 a month in, do it; that's when you're gonna make more money. And in two years, when everything goes back to being great again, you're gonna be like, you're gonna be doing a happy dance because your returns are even that much better. And that's really when you can really succeed in the market. It's not actually when it's going up the most. It's actually when things are going poorly is when you can really jump in and take advantage of those situations. So I guess those are I guess that's my counter-argument if you will.

[ANDREW] Yeah. Yeah. Makes sense. All right. So yeah, I'm glad you covered that. I think it's it's key, like you said, to have that in your mind, then it's very counterintuitive. And we want all pat ourselves on the back when stocks go up, and we want to put more money when stocks are up. But it's actually the opposite. Yeah. And if you sell because you're not aware that that's the reality of the stock market, you're not going to get good results.

[DAVE] Right? Yeah, the key to success is to buy low and sell high; you have to always keep that in mind. Buy low and sell high; buy cheaper sell at higher.

[ANDREW] Yeah, one of the podcasts, the first park podcast, Mr. Miranda used to say this all the time, she used to say, nobody's gonna care about your money more than you do. So that's why you have to empower yourself. And that's why if you're listening to the show, you know, that's a great thing because nobody will care more than you do. And it's something that you're going to have with you for the rest of your life.

[DAVE] Yep, exactly. No, I 100% Agree. All right. So we've beaten that horse to death. Let's move on to the next question. So I have dear Dave and Andrew. First, thank you all for all your work on the podcast and newsletter and monthly research wetter; your podcast served as a great stepping stone into this world. In comparison, the research wetter enabled me to finally start investing, given my limited time slash confidence to actually do the research. So I have three quick or two questions here. So given that I'm a strong believer in dividends, I am interested in investing sums into a couple of King slash aristocrats. How would you go about this? Do you research these companies for these newsletters? Or do you focus on companies you think would be common kings or divert? Aristocrats? I am a conservative investor with a 90 slash 10. I just turned 27. So the next questions will be about bonds slash safer investing options. So Andrew, what are your thoughts on the whole dividend aristocrat? Idea?

[ANDREW] So just a preface, dividend aristocrat is a company that's been paying a dividend and has increased that dividend for 25 consecutive years, a dividend keen, same story, except they've been doing it for 50 years. So there are websites out there you can go to and see lists of dividend aristocrats, dividend Kings; they'll update them every month, day week, however long they do. So that shouldn't be too difficult.

You can just Google different kinds of different risks of crowds give you a list of ideas. The question behind whether do I research these companies? Of course, I do. Do I focus on them? Yes, and no. And so, you know, it's a great thing to see a company with a track record of growing dividends; generally, that's a good sign. But, you know, it needs to be done in a way where this company grew, they were profitable, they grew profits, they grew dividends. And they did all of that together. You don't want a company in a situation where they're, as an example, getting a bunch of debt in order to pay a dividend, or you know, their business is going down, but the dividends that they're paying are going up, that's not sustainable.

At some point, it's gonna break. And so you know, if you look at a company, if you've been a loyal customer to Amazon for five years, does that guarantee that you'll give them your business next year? I mean, maybe it could influence that a little bit. But if they start dropping the ball and giving you packages in two weeks or so two days, then maybe you switch to a different retailer. And so, in the same token, businesses can have great times, or they execute really well, but they need to continue executing.

And so that's why that's where kind of being cognizant of what's going on with these companies comes into play. So it's, it's a great place to look for ideas. But I'm not saying I don't think anybody should just focus solely on them because they can give you great returns. But it's not always those groups of stocks that do the best, even though some, some articles online, will try to claim that it's not going to be true all the time.

[DAVE] Yeah, one of them, I guess, difficulties or struggles with investing in companies like the dividend aristocrats or the Kings, is you have to look at the life cycles of businesses. And generally, companies that are paying dividends that are in that nature of 25 to 50 years are more on the mature side of their growth, if you will.

And the thing you have to kind of think about it, I'll just kind of pick on a couple of companies here. So Coca-Cola and Johnson and Johnson, who are probably the two are the more famous dividend aristocrats; their returns over the last 510 years have been kind of a, and so in, especially if you compare that to the returns that the s&p 500 has gotten over that same period. Now, yes, they're conservative companies. Yes, they are paying a great dividend, and it continues to grow.

But the other part of the business is investing in the business, not just the dividend. And so the thing you have to think about with a company like Coca-Cola is, as much as I love the product, and I do, I drink a lot of it every day. And so, I may not own the company, but I am certainly contributing to their bottom line. The issue, though, is that if I invest in Coca-Cola, that's money that I'm taking away from investing in something else that could earn me a better return; I'll be it; maybe it'll be a lesser dividend yield. But it could be I could get a comparable dividend yield, let's say just for numbers, let's say Coke is paying a 3% dividend yield. I don't know if this is an actual fact; I'm just throwing out examples here. So let's say Coke is paying 3%. And but the overall return of the company is three and a half a percent. So now you're looking at around a six and a half to 7%—return total for investing in Coca-Cola.

Let's say that I find a company that's only paying me a 2% dividend return, but the stock is actually returning 8%. So now I'm looking at a 10% return for that company versus the six or seven that I could get with Coca-Cola. Well, I don't know about you, but I would rather choose the latter over Coca-Cola. And it doesn't mean that I think Coke is a bad company or a bad investment. I am just looking for if I want a better return; I want to go for the company that's going to, in theory, give me a better return. And so when you look at the companies that comprise all of the dividend, aristocrats, and kings, most of it well, there are companies that are at least have been around for 25 years, because they just have to by the nature of the name, and then some of them have been around for 50 plus years, none of them are going to grow, like Microsoft is now or like Amazon, or Google, or even picking companies outside of that whole realm.

Even Berkshire Hathaway they're not going to grow like that company is just because of the nature of what they do and how they do it. And it just, it's just an economic fact. And so you have to think about what do I want to get for my investments. And maybe for a loop a little bit more risk, you could buy something like a Visa or MasterCard, just as an example. And you could get a better return than you could buy from getting Coca-Cola even though Coke gives you a better dividend. So those are just things to think about, I guess.

[ANDREW] I want to fly back again. And okay, don't take this the wrong way. Practice your thick skin has nothing to do with anything you're saying. This is just stuff that's been circling around my head a lot lately. So the thing with the lifecycle, I think this is important to understand because when you're jumping into the stock market, you need to understand what there are positives and negatives to investing in the life cycle. So you mentioned the life cycle; I think it's it's a really important thing for new investors to kind of understand. You basically have the birth stage, the explosive growth, and then the maturation.

And so when you're going in the explosive growth stage, the reason why a company can get explosive growth is that it's either a brand new market, it's a brand new product, brand new service. And so it's the number of people who are using are just exploding leaps and bounds, or it's coming in completely and just destroying another business. So like Netflix would be a perfect example, they destroyed blockbuster. So there will they'll go explosive growth because they had a really small company, and then they grew as they took everything blockbuster had.

Now you look at Netflix, and they might start to get towards more of that maturation, where there can't believe they're not going to explode like they used to because there are no more blocks. Most of the tech from blockbusters is dead. And so, really, what's going to limit their growth is going to be the number of people out there in the world and how much they're willing to pay for Netflix. And so what's nice about being in the maturation phase, and investing in companies like that, is as long as they can keep those prices going, they could be a cash cow for decades. And Coke is a good idea, a good example of a company that did that 2030 years ago, and they were able to do it for many decades. And now it's kind of starting to die off in a way, you can just look at the revenue numbers, and you can see it as it's going down.

That's a good sign of a company that's really gone from maturation into a kind of decay. And so when you look at companies, you do have companies that are kind of maybe decaying, when you look at the revenue like Coca Cola, Johnson Johnson, you also have an art copy like Target, which all say I've been a shareholder of, for a while, I recommended it for the leather over the last 40 years, they've, if you've invested stock, if you bought a share of target stock 40 years ago, you would have had a 24% annual return if you reinvest your dividends.

And so this is a stock that if you look at it on the surface, they look like they're matured, they have 1900 stores, and they're not really looking to grow past that. Most of us are the hazard target. But if they can continue to serve the kind of customer that they have, and give them better products at higher prices every single year, then that allows them to be in that sweet spot of maturation and allows for nice dividends, nice dividend growth, and nice earnings growth, you kind of get everything that Dave was saying with, you might get a lower yield because a company like that might be a little bit more expensive. But you get the growth that comes with that; when you add that to the yield, you get a much better return. And so, what I like about picking stocks that are in that maturation phase instead of in that explosive growth phase is that they already have dominance. So all they have to do is continue to execute.

They don't have to spend a bunch of money to try all these new things and try to make a name for themselves. They've made a name for themselves. All they got to do is continue milking that cash cow and basically just not have somebody come in and screw it up. Now sometimes another business can come in and try to screw up. That's where the moat comes in. We've talked about economic moats before, and you can go back in the archives and listen to that. But really, it's their game to lose at that point. And so that's where a dividend keen or dividend risk cat can be a great company. Because those if it's a company that's in that sweet spot of maturation, and they're just, they're living the good life in there. That can be a great investment for a very long time.

[DAVE] I stand corrected.

[ANDREW] Yeah, his visa is a perfect example that, by the way,

[DAVE] yeah, listen, wasn't ignore everything I said. And listen to what Andrew was saying. Because if, if you think about what he was saying, and you look a little deeper into what, what actually consists of the list, like I was doing while he was talking, and yeah, I was wrong. So listen to what Andrew was saying.

Because that is absolutely correct, I think you have to think about it; you have to take each company, piece by piece and think about it in that light. I was lumping Coca-Cola slash Johnson and Johnson into a different category. But then you have companies like Andrew was talking about Target. And you have other companies like Walmart, and you have VSA. You have SP s&p Global. There was a list of other ones I was just looking at here, you know, on the list that is there. They're great companies that are growing ADP, Archer Daniels, VF Corp Pepsi, Kimberly Clark, Federal Realty. I mean, there are lots of great companies in there. So the bigger, the bigger issue, not the bigger issue. I guess you have to take it company by company and find a company that has the value and has the growth that you want, not only from the dividends but also from the share appreciation for that the company could earn. So definitely listen to what Andrew was telling you. That's the right advice.

[ANDREW] The second part of her question, or his question, I am currently interested in investing 10% of my yearly Roth in bonds. I've also listened to your episode regarding bonds, but you did not discuss bond ETFs in it. What do you think about those? Also wondering about the timing of this purchase, given the current high inflation rates and possible increase of interest rates in early 2022? How would these factor into my decision whether to invest in bonds or not? I'm considering putting the 10% an ETF such as be tested to be V T V and forgetting about bonds for now due to their minimal return. This was from Holly.

[DAVE] Yeah, so it's a great question. So if I've done talked about bond ETFs in the past, I, I am sorry. So bond ETFs are, are really no different than stock ETFs. They, you have different flavors that you can choose to match whatever it is that you're looking for. So, in other words, you can find bond ETFs that will help the entire bond market and are just an FYI. The bond market is almost double the size of the equity or stock market in the world. So the bond market is huge. So you have a choice of buying a wide range of different kinds of ETFs. Suppose you want to use that for bonds. So like I said, you could buy the total bond market. You could buy the bond market that just focuses on corporate bonds, which corporate bonds are bonds that the individual companies would sell.

As I mentioned earlier, Microsoft Johnson and Johnson, those particular companies, issue bonds to help raise money, to do different things for the company, whether start different projects, whether it's to pay off other debt or various other things. So, when a company issues a bond, that's what they're doing. And so you have corporate bonds, and then you also have treasury bonds. So those are the bonds that the government pays out to raise money, to pay for things just like companies do. So you have turned that you can buy and you have different durations.

And that means how long the bonds are good for until they mature and you get all your money back. So for those of you who are not familiar with what a bond is, a bond basically is a loan that you give somebody in return for them giving you interest, payments, or ends for giving you that money. And then when the bond matures, or the loan matures, they give you all your capital back. Plus, you've earned all those dividends throughout the time that you loan them the money.

So that's, in essence, what a bond is, and bond ETFs take all those different kinds of collections of bonds and put 'em together in a fund they, that you can buy. And for the average way person, if you want to invest in bonds, that's probably gonna be the easiest way for us to do it because unfortunately if you wanted to buy a mic, a bond for Microsoft, they are available to buy on their own. But generally, they sell in blocks of anywhere from 10,000 to a hundred thousand dollars per block. And so unless you're sitting, sitting on a lot of dough, they're harder to come by for just average shucks like us. So for me, using something like a bond ETF is a way that I would invest in bond ETFs. And I have done that. I put a small amount, about 5% of my portfolio, in a couple of different ETFs for bonds. I'm hesitant to give investment advice in this regard and pick a specific thing or two to choose. It really comes down to what kind of you're willing to tolerate again, just like with stocks.

So if you think about bonds, the easiest way to think about 'em is you have to think about 'em in, I guess, levels of risk with the levels of risk are gonna come better returns or better yields the, the higher, the dividend or the bond payment, the gonna have to pay you to entice you to buy this bond. So the lowest yields, but the safest, are anything to do with a government bond, whether it's a treasury bill, a treasury bond, anything like that, they're anywhere from a weak duration to 30 years. They're the safest bonds out there that you can buy. You can buy them at @treasury.gov, or you can buy them through your brokerage.

However, you want to do that. They pay the lowest yields, but they're the safest; the next tier, if you will, is anything to do with a corporate bond. So generally, anything that's considered investment grade is something that's gonna have a stronger balance sheet, and it's gonna be less risky to going bankrupt. And those are going to pay better yields than the treasury bonds or bills will because you're getting a little more risk. Now you could argue that Microsoft probably has less risk of going bankrupt than the United States government does, but that's, that's a that's another conversation. But, the idea is that the corporate bonds, whether it's buying Fiserv or Visa or Johnson and Johnson or PayPal you're gonna, or Tesla, uh, you're gonna get a higher yield to buy those than you would to buy, buy a, uh, to buy a treasury bond. So that kind of have, I guess, middle of the road, if you will yields that, come with them, and you can buy bond ETFs that focus solely on investment-grade bonds.

And Vanguard is a great place to look for these, by the way. So you have that. So then the next tier, which is gonna pay the highest yields, but they're also gonna be the riskiest. These are what are levelly called junk bonds. And these are not investment-grade bonds. These are bonds that the bond rating agencies have determined a higher risk of bankruptcy, and they have different levels of risk of bankruptcy. But in generally anything that's gonna fall into the junk bond range, or they call it, they also call them high yield, uh, because that's, I guess, a less derogatory term, but really what those indicate is they're the risk of default on this loan that you give them is higher than it would be for a corporate bond correspondingly.

They pay a higher yield. So you earn more money for investing in these, but you're paying for that extra risk. And again, you can buy ETFs bond ETFs that focus on these high yield slash junk bonds, uh, focus, you know, to give you those investments. So what I have done again, not investment advice, what I've done of the 5% that I bought, I put 3% in a, in a corporate bond, et, and I put 2% in a, in a high yield bond, et just so I could kind of juice my bond returns a little bit, but it's 5% of my portfolio. It's not a lot, but I just did it so that I could experience it partly and partly.

So I could have a little bit of extra security. So that's, I guess, kind of the whole idea about them as far as when to buy them, that again, really comes down to what's gonna work best for your portfolio. I don't get too interested or too excited about the timing of when to do this. And when to do that, it's really more about time into market, about when, as opposed to when you invest, don't get too wrapped up in what the interest rates are now versus what they're gonna be in two years, because in two years, your financial situation could, could change. And so it's better if you have the money and you wanna do it, but the money in now, and don't worry about it. And I guess that's, that's kind of my thought on the whole idea.

[ANDREW] Cool. Well, I appreciate that. And, thanks to everybody for riding in today. Hopefully, we got some good perspective on risk timeline, bonds, dividends. Do we cover everything today?

[DAVE] Pretty much. Yeah, pretty much, pretty much, very, very broad-ranged episode today. All right. So I, I guess with that, we're gonna go ahead and take it out. You guys, uh, invest with the margin of safety emphasis on the safety. Have a great week. We'll talk to y'all next week.