# IFB215: ETFs and Stock Price Impacts, Plus Stock Spinoffs

*[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.

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 Beginner's podcast. Tonight. We have episode 215, and tonight we're gonna answer two great listener questions we got recently. So without any further due, I will go ahead and dive in, and Andrew and I will do our usual give and take. So here we go. So I have, hi Dave and Andrew. Your resources are continuously rewarding so far. I've been following IFB for a few months now, much praise. I have two questions. I'm six months into my journey of learning about investing in money management, albeit a bit weight in life, and trying to get my friends that are all in their forties to start thinking about investing and their retirement. Thank you.

Some, unlike me, are not made out for learning how to pick an individual and are far more suited to play it safe. And along with investing in the S and P 500 in retirement accounts, for those who have some ethical hurdles in investing in certain companies in the S and P 500, does invest in ETFs that track the S and P 500 companies actually affect the stock price and the businesses of the underlying companies themselves.

I know that when investing in VOO, for example, I'm not buying actual stocks of these companies, but investing in a fund that just tracks these 500 companies when people buy and sell VO or S P Y do their investing actions actually affect the underlying companies positively or negatively. So, Andrew, what are your thoughts on this great question?

Andrew, It is a great question. And thank you for writing in; I think maybe we should go back to the basics in case there's anybody who doesn't understand how the stock market really works and what it represents. And then that kind of feeds into how ETFs work, which is what the question is here. Two very common ETFs, which let you buy a basket of stocks and the tickers for those are S P Y N V O O. So how would you describe the very basics of what a share means on the stock market and you know, how that relates to the

Dave Business world? I think the easiest way to describe it is would you buy a stock you're buying a share or a percentage of that particular business, whether it's Microsoft, Apple, visa, Tesla, whatever it may be when you buy that share, you are now a part-owner of that company, albeit a smaller portion, but it's; still, it's a portion of ownership of that particular company

Andrew Perfectly said, yes. So S and P index does like these two ETFs or is talking about VOO or SPY. It just takes a basket of that. So I've been doing this for almost a decade, so I'm not quite the eldest gray head when it comes to like being in the stock market. But back when I first started, it wasn't that easy to just go and buy however many companies you wanted. And so the S and P 500, the top 500 companies in this index that people track when they talk about the market, that's a lot of companies to buy individual shares of. And back when I started, you couldn't even buy partial shares. So if Google is trading at like $3,000 a share, and you wanted to build an index that included Google, you'd have to put 3000 down just to have one share at Google.

And then let's say you gotta put 200 down to buy a share of apple. And it was just really, basically impossible. Let's you had a huge amount of money to buy the whole index. So ETFs made that. So, they basically pool a bunch of money in, and they go, and they buy these companies, and when you buy shares in the ETFs. So it's like this shared pool, and you don't own this, not this mystical pool; it does own the companies inside there. And so they answer the question when you buy S P Y or VOO, does it affect the companies inside it? Absolutely the indexes have to match. So they have to have the number of holdings to match, and they are taking in investor money and then just simply buying it. And they're the ones who are holding it and kind of being the custodian and managing all for you so that you get the correct waitings.

So, you know, and this is just an example. If Microsoft made up like five per percent of the economy, but let's say CDW, which is its distributor, if they only made like 0.05% of the economy, if the S and P were waited to match, it's waiting in the economy, then the S and P 500 should be made up of 5% of Microsoft and only point, oh, whatever number I said for CDW. And so that's a lot too, to like the balance that is a lot of moving money around the ETFs really do take a lot of the headache of having to diversify and build a portfolio that would match what you see reported. When you see people say the market did this, or the market did that.

Dave Yeah, exactly. And if you wanted to work around the ethical hurdles that they're talking about out here, whatever companies there may be in today's age of so many creative ETFs, there is a possibility that you might be able to find an ETF that doesn't contain those particular companies. There are different types of ETFs out there now that you can buy, who try to manage whatever, I guess, weens you may have.

There's also depending on what particular companies they are, again, I don't know which ones these are, that they have, you know, some hurdles and that's totally fine. There's nothing wrong with that. There are lots of people out there like that. And I guess my point is that there are ETFs that you can buy that let's say that I'll just use an example. Let's say that the company is Facebook; just as an example, Facebook occupies a larger percentage of the S and P 500 by market weight.

You could find ETFs that will match the middle tier of the S and P 500 or even the bottom tier of the S and P 500. So there'll be more midcap or small-cap stocks that are in those particular indexes. And you could buy something like that. So instead of buying the whole index, you could buy different portions of the index. Or I've mentioned this in the past, let's say that this particular company is airlines. For example, just again, as an example, I'm not saying this is one of those; let's say that it's airlines, and you really wanted to focus on semiconductor stocks.

There are ETFs out there. Now that track indexes that mimic all the semiconductor stocks, for example, or if you wanted to do solar, or if you wanted to do electric car, the world is your oyster now with ETFs, because there are so many options like Andrew was saying, you know, ten years ago when he started the old man when he started, there weren't as many options as there are now. So there are lots of different flavors that you can choose from. So if you want to use something to track the S and P a of hundred S P Y V O O are great choices, and they're easier options instead of having to mix and match or move around. But I guess my point is that there are options out there if you want to avoid certain sectors or things that you'd rather focus on than others.

Andrew And I would be careful, cuz I think it's kind of been lumped into what's called ESG environmental, social, and governance. So there's a lot of ETFs now that kind of have this ESG focus, and those are kind of supposed to be, you know, better for the environment or better socially corporate responsibility, all those sorts of nice buzzwords, some of those ESG funds don't actually like you have to be careful about what's actually in the fund. Like there are ESG funds with big oil in them as an example. Mm-Hmm <affirmative> so, you know, if you were trying to avoid that because you wanna invest for environmentally friendly, then that would be something to consider. You really can find whether it's like an environment. It doesn't. So my point is you don't have to pick an ESG fund, but you can pick different funds. I have two different themes.

And maybe that theme corresponds with what your values are. They even have this like Christian values index now. And there's several of 'em. So, you know, ETFs are really easy to make nowadays. So everybody and the brothers making their own ETF, that could be overwhelming, like they've said, but if you are interested in, you know, customizing your portfolio because you don't wanna participate in particular companies or whatever the reason is, you can definitely look at what is inside an ETF. And that's not very hard at all. Like you can put the ETF ticker into Google and probably the top three websites at least we'll have where you can figure out what the holdings are. You can read the prospectus, which tells you what the fund is trying to achieve. Take you a couple of minutes, but it definitely would be researched as if you're trying to DIY and customize parts of your portfolio.

That would be a great way to do it. And then, of course, I would be remiss if I didn't mention that, you know, if you wanna go crazy, you could go to individual companies. I mean, nowadays, you could buy a share, you can buy $5 worth of any stock in the S and P through Schwab, or I think I was playing with fidelity, and I bought like two or $3 worth of stock. It was like point whatever, zero, zero, whatever. And you, you can do that now. And you can like totally build your own ETF. Now it's kind of crazy. So I'll cross that spectrum of like do it for me, buy me the S and P 500 all the way down to let me build my own index. You can do it all.

Dave

Yep, exactly. You can. There are lots of great resources out there. And Vanguard, I should BlackRock, etf.com, all those websites that are big ETF providers. You just go to them, look for the particular ETFs, and they will tell you exactly what's in there like Andrew was saying, and you can also read the respect us, which will give you an insight into what they're trying to achieve with ETF. That's very helpful, especially with the ESG ones. If that's something that's important to you, I would strongly recommend you do that because, unfortunately, there is a little bit of shadiness going on with some of that occasionally. And so you kind of wanna know what you're buying because I would hate for you to be touting an ESG investment philosophy, and then you're buying something that you're against.

So that would be detrimental. All right. So let's move on to the next part of the question. So the second part of the question is on a similar note, what would you account for the difference in price in S B Y at $470 a share and B O at $430 a share, as well as the slight difference in performance 6.9 versus 6.4, 8%. Both of which I bought on the same day if both funds that track the performance of the S and P 500 list. So, Andrew,

what are your thoughts on errors is I'm sure I butcher that name. <Laugh> so forgive me if I have that great question.

Andrew Yeah. So he mentions basically buying the same thing, and then there's a slight difference at the end of the day, you know unless you hit the buy button at the exact same time for both of the stocks that or ETFs that could make up the difference right there. I know that there's a slight difference in fees between S P Y and VOO. Again, we're talking about fractions of a percent. So it really doesn't mean much.

And even the difference between, you know, 6.9 and 6.5 for a single day, my guess probably has to do with the fact that in the 30 seconds it took you to say, buy the O and then buy S P, the index probably moved a tiny bit, you know, that could certainly have been the reason, the difference in the management fee of the ETF that could possibly, maybe they take that out the beginning when you buy that could account for the difference.

So it could be a couple of those things, but I really wouldn't sweat it too much. He says the difference between the price is different. So that really has to do with the outstanding shares. So should we go back to the basics and explain shares outstanding. Yeah. Go for it. So, you know, if you think about a stock, what determines a stock's price? Well, it really depends on how you slice it up. If we think of it like a pizza, how many slices are there in the pizza? If dominoes pizza is a company we wanna buy, and let's say it makes like $4 billion in revenue while the stock price will be really high. If we only split that into three slices or four slices, if we split that into millions of slices, the stock price will be lower because, yes, Domino's pizza might make $4 billion a year, but we've sliced it up in all these little shares.

And so, however many shares you slice it into is gonna determine what the price in the stock market is for that company. And then, you know, that's gonna change over time, and as the company grows, so does the share price, and the pizza can be res sliced over and over and over again. But the bottom line is the price is gonna be different depending on what the share's outstanding are. So the S P Y and the VO are both tracking the same S and P 500, the same 500 companies. So they're gonna move the same way. So if one moves 3% up, the other one's gonna move 3% up. Also, the difference is they have different shares outstanding. So the price that you actually pay for one share that share price is different because there's a different number of shares that there's different, it's sliced in the different number of slices that pizza.

Dave Yep. Exactly. All right. So let's move on to the next question. I think we've beat that horse. Pretty good. Hi, Dave and Andrew, I have a question on how to approach and T and their impending spinoff of Warner media. I started investing in the company before the spinoff announcement, and I continued to add to the position because of a large dividend and future promise of free shares of the new Warner brothers discovery spinoff company. Here's where I'm struggling. I know that at and T share price will continue to fall as a spinoff date years and take a large cut.

When it actually happens. I can add to the position to maximize the current high dividend and receive more shares of the spinoff company, or keep my position and likely purchase a significantly more amount of at and T shares after the split, while also lowering my overall cost per share, but not receive as many shares of the spinoff company. I'm leaning towards the former because of the increase of the new company and that future value in the long run. But curious what your thoughts are. Thanks, Eric. So this question came from Twitter. So, Andrew, what are your thoughts on Eric's great question.

Andrew Loves it. So let's define spinoff first. It's basically a company that's having a divorce inside of itself. So, or it used to be, you know, maybe two businesses merged into one. Now they're separating and becoming their own, you each their own. So for at, and T, which I'm not an expert on at and T, I don't own the stock,

but I'm familiar with the company they're spinning off Warner media, which I don't know, again, the specifics, but I'm assuming that's, I know they have like record labels.

They own TV shows like HBOS under Warner media. I believe mm-hmm <affirmative>. They are. So all of those like media assets are gonna be what more Warner media is. So it's gonna go away from at and T it's gonna become its own company separate from, at and T at and T with the fiber and the phones, and the fancy commercials are gonna be their own thing, too.

And so, as Eric said in the question when that split happens, the share price of at and T goes down by the amount of how much Warner media it is basically worth, right? So you have the value of Warner media, the value of at and T as they split; however, valuable Warner media is, gets chopped off that share price. Shareholders who have at and T shares will get shares of the new Warner media.

You still keep the same number of shares from the at and T you don't get the French. I mean, you have the same number of at and T shares. Now you have new Warner media shares, but the old, the at and T is not old at and T, so that share price is again gonna crash. And so the question for Eric is he's wondering, you know, should I buy more now?

You know, you can start collecting dividends now, or should I wait till after the spinoff? And that really depends on which company do you want to own? Which business do you wanna own? I mean, do you like Warner media? And what's hard about spinoffs? Is that why a company like Warner media is inside a bigger company like at and T there's probably not as much disclosure. You won't see as much information about that company as if it was a standalone company required to file its own annual reports to the SCC. So they're going to have to do that. So moving forward, we're gonna get to see much more disclosure on Warner media that you didn't get to see in the past. Now they do have, I think it's called an S one, but there's, there are special prospects for spinoffs. So you do get more detail about what the new spinoff company is.

What's inside it, how they spin, like the mechanics of the spinoff are gonna work. But generally, it's not as in-depth as an annual report will be, which they will file within their first fiscal year of being their own company. So it's tough because you might think, you know, what Warner media is all about, but it could be, it could be something different. It depends on the spinoff. It depends on the companies involved. And so you really have to keep that into your consideration. Do I feel like I know enough about this business model to feel confident about it, yes, I do want Warner media, and that's really where that's really what it comes down to because I mean, you could play games all, all day long with the dividends and the stock price, but those aren't games that most people can win. And it's certainly now the game I try to win.

It's really; you wanna find good businesses and, and try to invest in those for the long term and knowing about what a good business is, depends on how much you know about the business and how much you know, about analyzing businesses. So that's why I say, sure. I mean, if, you know, for sure you like both companies, why not collect more dividends? Sure. But if you're kind of on the fence, or you're not, maybe you're a little uncertain about the future Warner media or what you get with Warner media, then maybe it's worth waiting until after the split, waiting for more annual reports, that kind of a thing. So let me,

Dave I guess, let me play a little bit of a devil's advocate and ask you this. So let's say that at and T is trading; let's say it's around 30 bucks a share. I don't know what the actual price is. I don't have it in front of me, but let's say it's trading around 20 bucks a share. And you really like at and T, but you're a little bit on the fence about order medium. If the price drops, when the spinoff happens, let's say it drops to 20 bucks, a share you could buy more of at and T at that time and reduce your cost basis on the at and T investment. And

you're gonna get more of the dividend because you own more shares because that part of it won't change. But the, it could though it could, but it's, they could,

Andrew It could split the of it in theory, where they

Dave Could, but I, you know, at and T that one of their big trading hallmarks is their dividend. I can't see them doing anything. That's gonna affect that part of it because I think that would be ruinous for the investors in the business. Well,

Andrew

If, if it's because of the spinoff. So if, like, if at and T was paying a dollar in a dividend end mm-hmm <affirmative>, but then they spinoff. Maybe they only pay 80 cents in the dividend, and now Warner media pays 20 cents of it. Do you know what I mean? Yeah. I mean, I don't invest enough spinoffs in knowing whether that's the case or not. Yeah. I don't need it. I derailed what you were trying to say. I guess you were saying something about,

Dave , I guess I would, I was getting at, would it be more beneficial to, to wait until the share price drop, to buy more of the parent company, because you're gonna get the shares of the spinoff here regardless. And if you're more bullish about at and T than you are about Warner media, wouldn't it be more beneficial in the long run to lower your cost basis. Then you get, you know, a better return over a longer period of time, cuz chance is, are, you know, a company like at T will. Some point will probably return back to, you know, the price of before the spinoff, probably sooner than later. And then you'll still get the benefit of the dividends that you're collecting because you own more shares.

Andrew, I think you hit the nail on the head, and there's actually some literature written about it. Joe, I don't, yeah. Joel Greenblatt. I don't know what the whole cost basis thing is. We're not tax professionals. So that would be more of a special case. But as far as the actual spinoff themselves, Joel Greenblat, which was an investor who had crazy returns, did something like 45% a year for like a decade. So, in a place where people are happy to make 10% a year, he quadrupled that, and then it mushroomed outta control. So he's done very well for himself in the stock market. He specializes in, spinoffs and he wrote a book about it. You can be a stock market. Genius was one of those books. I think that's the one that has the spinoffs. I think it is too.

Yeah. And he noticed back when he would invest; spinoffs seemed to always sell at the beginning. And so he would say like, the reason for that could be that you have a bunch of people who own the company and then they spin off a part of the business and people don't really like that part of the business. So they would sell those shares as soon as they get those shares, spun off to them or, you know, maybe they bought at and T cuz they liked Warner media, but then, you know, they really never liked the at and T part that much. So after the spinoff, they sell the at and T part; you could get a lot of that. And so that's where sometimes you could see the price go down after the spinoff and then come up as people start to recognize that this is a situation that potentially created value for everybody involved.

Mm-Hmm <affirmative> because another thing about wall street, which is kind of weird, but <laugh>, they don't like glut, which could argue would be a good thing, but like they would sometimes evaluate the pieces differently if it was two separate pieces than if they were together. Even though the financials are like the same different stocks will get different prices based on if you consider them a media company or if you consider them a phone company, they could be, they could really change the price. And so as the market figures out what that new price is, that's where you can see it go up a lot. So those are, I guess, some additional things that think about that could be factors. I don't know. I mean, we talked to somebody the other day, and they said something about how as the whole green, black thing's pretty much well known now

and arbitrage way. Right. But I mean, at the end of the day, you still have like investors wanna like what they invest in. I mean, if anything, we answer that question today. Yeah. You know, talking about the ethics behind your investing. Right. So people do make decisions like that. So it does make sense that you could see prices come down after a spinoff and then go back up; that's completely possible. And it does happen a lot.

Dave Yeah, it does. I am actually going through, or I'm gonna be going through this exact scenario with a company I own; I own shares of intent L, and they recently announced that they're going to spin out one of their divisions called mobile. I, and so something that's been kind of interesting to watch is the market kind of reacted actually kind of favorably to Intel, you know, announcing that they were gonna spin out this division.

And, the share price of Intel actually went out up a little bit over a few days. So that indicated to me that they were favorable around the idea of this particular segment, going public and being its own standalone company. And, you know, at this point, I haven't decided what I wanna do with Intel, but that could be something that could lead me to continue to hold the company because it could if it does drop the share price of Intel, I could buy, I could get a better cost basis, and I could potentially get the ownership of another valuable asset that I don't know that much about, honestly.

So it would be something that I'm gonna try to learn about. And last year, in 2020, I bought a company that was spun of VR Corp. It was called contour brands, and they were a company that owned, oh gosh, I'm gonna blank on the genes Supreme. Yeah. Thank you. Yeah. And it was trading for, I don't know, around 15, 16 bucks a share prior to COVID, and then it dropped to about 12 bucks a share during the pandemic. And it proceeded to recover over the next year to about 50 bucks a share. And it was paying a dividend along with the ways I got a smoking deal on the company, but it was a great example of a company. I was looking for a dividend company. I came across this company; it looked like the prospects were great. And then it was spun out of VR Corp.

And I was able to buy it at a really good price. So there can be opportunities in this. You just ha kind of have to pay attention and kind of understand what your goal is. I think the biggest thing is understanding what the goal is because, you know, if you don't like Warner and you think this is a complete dud. And I guess to me, that would be one of the big questions because this is now the third or fourth owner of Warner media in the last five or six years. And so that would weed me to think, why does everybody keep wanting, get rid of it? <Laugh> that would be my, I mean, that's, that's my question, you know, I mean, 18, you know, H B was great obviously, but you know, the rest of it is like, well, why do people keep dumping it? Is there something wrong with it?

You know, anyway, that's a question I would ask, but I think this is a great question, Eric. And I think that I think you got the right idea about what you're trying to do, but I think the biggest thing is, think about all the things that Andrew was talking about and try to remember what your goal is for the investment with the T and T as well as if you decide you want to continue to own

Andrew Warner media. Yeah. I mean, really fantastic question Eric, and thank you for writing in and presenting that to us. I'm glad you brought up Intel. Cause I think it, it also makes another good case study example, cuz I think it's kind of like wall street speak to say, oh, and then unlock shareholder value. This spin else unlocks your holder value. But like if you look at Intel, it's a great example of this because Intel, if you're not familiar with them, they're kind of big, very big matured, low growth, great cash flows, you know, just kind of that steady blue-chip stock. And then mobile is a super high growth stock. So you know, the way

that super high growth stocks go is they go to the stock market, and they try to pool a bunch of money together. Right? That's what the stock market does.

You pool a bunch of money together in order to get this explosive growth that you go, and you go dominate the market. That's the idea for Intel and blue chips like in they've more or less dominated their market already. And they're more about giving money back to the people who have pooled money into the system. You know, they're gonna pay back the shareholders return capital to them. So it's like two different strategies and two different ways to use the same stock market. And so that's why when you leave, you mobilize inside of Intel, you're not able to take advantage of the stock market to raise a bunch of capital because it's stuck inside Intel, and Intel's giving away capital, not taking it in. So by spinning it off, the shareholders who owned Intel still get to own mobile. I but now gets to use the fact that it's the capital markets and it's a young growth stock and you know, it could very well be win-win for both Intel shareholders and mobile shareholders. Yeah,

Dave Yeah, exactly. So the time will tell; I think the spinoff is supposed to happen sometime in 2022. So we will keep you apprised of that. And maybe that, that might be a good discussion at the time when that actually happens. Yeah.

Andrew Somebody asked a question about it. Well, if it's in the queue, well, I'm sure we love talking about Intel, so I'm sure it will show up at some point in the show. Yep.

Dave Yep. Exactly. All right. Okay. Well, I guess with that, we will go ahead and wrap up our for this evening. I wanted to thank everybody for taking the time to write us those great questions. Keep 'em coming. This is a lot of fun, and we hope you guys are getting some good, good information and some good takeaways and learnings from all this stuff. So without any further ado, we'll go ahead and sign us off. We'll go out there and invest with a margin of safety, emphasis on safety. Have a great week. We'll talk to y'all next week.

Email sales@advertisecast.com to enquire about advertising on the podcast.

We hope you enjoyed this content. Seven steps to understanding the stock market shows you precisely how to break down the numbers in an engaging and readable way with real-life examples. Get access today@stockmarketpdf.com until next time have a prosperous day. The information contained just for general information and educational purposes. Only it is not intended for a substitute for legal, commercial, and or financial advice from a licensed professional review, our full disclaimer@einvestingforbeginners.com.