IFB227: How to Keep Your Spirits Up When the Market is Falling

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Dave

0:00

Alright, folks, welcome to Investing for Beginners podcast. Tonight we're going to do episode 227. And we're going to take on one great listener question we got recently; this is going to be kind of a four-parter if you will. So we got some interesting takeaways from this great question we got recently. So I'll go ahead and start and read the question, and we'll do our usual given take. So I've. Hi, Andrew. I'm really trying to stick with investing when the stock price keeps dropping or not really moving. I'm getting a bit downbeat is how you can really make money long-term when it seems you always have a blast in it.

Is it really the dividend that you depend on this also may not bring the price up with the stock price falling? I'm not someone that continually emails seeking advice; please don't think that it's just getting make or break for me at this stage. Many thanks, Steven. So Andrew, let's kind of dissect Stephen's question here and see if we can help raise the spirits a little bit.

Andrew

0:52

Totally. And, you know, Steven, I think your psyche right now, and kind of how you feel about maybe your stock picks or the stock market in general, when you're first starting out in the market, in my opinion, I think how you feel about stocks really depends on when you started. So if you want to go back and listen to episodes that we did like a year ago, and you listen to some of the questions we receive from people, they were very optimistic and felt like they were doing a really good job of picking their stocks.

And then, just based on the tone of your email, I get the sense that you probably started investing somewhere around the 2020 to early 2022 time period. And the market has not done well ever since. So I want to first

maybe encourage you in that the market is like a roller coaster; it goes up and down. And it has good seasons and bad seasons. And that's just the reality of it. But if you zoom out far enough, you will see that over the very long term, it goes from the bottom left to the upper right. But as you're in it, and you're riding this roller coaster, you look at one month, three months, six months, even a couple of years, there will be times where you are falling.

And that's the whole market, not just the stock you picked, but the whole market. So you have to understand that there are bear and bull markets. And there is a reason that they call them those terms and that people refer to them. Because that's just the reality of the stock market. And I don't see that ever-changing.

Dave

2:24

No, it's probably never gonna change. As long as human beings are a part of the market and our emotions control the way that we view things, you're going to continue to see that Mr. Market or Mrs. Market, whichever you pronoun you prefer, is for different prices every single day. And sometimes they can offer a different price within a couple of hours. And it's really hard to know whether they're giving you a deal or not without doing a little research and kind of understanding what it is that you're buying. But I think one of the things that people sometimes separate from the stock market, and the idea of investing in stocks, as you're buying a business, you're not buying a ticker, you're not buying some electronic signal that's on an app on your phone or on a website on your computer, you're actually buying a business and a company and the market will, in the long run, will give you the returns that you deserve for that particular company.

Does it mean that every single company you're going to buy is going to be a great investment? Nope, it doesn't. Unfortunately, there are going to be winners and losers. And there are a couple of things I think you need to kind of keep in mind to help; I guess, even out the psyche that Andrew was discussing. So first of all, when we think about the market, and what makes up the market is all these different companies that people are buying and selling on a daily, hourly, minute by minute basis in some cases, and there's big money involved. They're smart money involved air quotes, smart money; there's dumb money involved. There are all kinds of different money involved in it.

But it really comes down to buying and selling a particular business. And everything you want to think about is when we look at the returns of the market if you look over the last couple of years, in particular, it's very, very focused on really, for companies have really been driving these huge returns for the stock market. And the big names that we know, Amazon, Facebook, Microsoft, Google, and out of like Apple, thank you. So it's really four or five companies that have really driven the returns of the s&p 500. And that's been about 50% of the return, give or take the period that you look at. And so the rest of the 50% comes from another 495 companies. And so the media tends to focus on the winners, the extreme winners, and the extreme losers, and sometimes they'll get so focused on a company as I'll just pick on somebody for a minute zoom. So, two years ago, Zoom was the hottest company, with a huge, huge run-up in price. And it got way ahead of its fundamentals. And when I say fundamentals, it got way ahead of really where the business was.

Now, zoom of good business. I think the jury's still out on that. But I think it's proving to be pretty resourceful and, in the long term, probably going to be a pretty decent business. But was it worth what that price was at that time? No, it wasn't. So think of it like buying a BMW. Would you go buy an entry-level BMW for $350,000? No, you wouldn't? Would you pay 75,000? Sure, because that's a fair price for it. So that's kind of the same idea when you're buying stocks. And sometimes companies will get ahead of really where the business is, for the long term. Now, can zoom grow from here after dropping, however, 75% 80% from that high? Of course, it can. Because the business fundamentals are our friend Braden likes to say, in

the long run, business fundamentals matter. And the stock market will reward those people that invest in those kinds of companies really well.

Andrew

6:01

And that's, I think, a really great way to put it; we have to remember about the stock market that it's not only to zoom in or zoom out on the big picture but also just kind of think about some of the other factors that are in play with the stock market. So I'll give another example. And I think this one doesn't really get a lot of play right now. But the invention of the 401k is actually a relatively newer thing, though that's in the business world. And so, if you think about what a 401k is, it automatically, in the background, without people even realizing it, takes money from their paycheck and throws it into the stock market. And so if you think about if that's driving a huge part of the money that's going into the stock market? Well, when you have to think about the economy, right, the economy goes up and down; there are recessions and boom periods.

So in the boom, times everybody has a job, everybody's getting a raise, a lot of money is going through their 401k. But when times get tough, for example, as we've seen in 2022, inflation starts to become a concern for people; maybe they reduce the amount of money that's going into their 401, K's. If a bunch of people in the economy is doing that, then maybe the stock market kind of takes a turn from that. Now, I'm not saying that that's the case here. But I'm saying that's one of the many major factors that change the prices of stocks. And so, that single factor could have nothing to do with any of the businesses that are in there. That's not to say a company like Bank of America is not doing well as a bank. But it could simply be fewer people putting money into the stock market, and that drops the value of all stocks. And so it doesn't make sense. I mean, I get the idea of it, and I get the feeling, I get the emotions of it. But you shouldn't beat yourself up over the fact that, man, I started investing two months ago, my portfolio, every single stock I picked is in the red; that could not be your fault; it could be bigger forces at play.

And it could simply mean you're not even making good picks; you could be making great picks, you know, like if I pick a stock and it loses 5%, but the market lost 10. That's a great pick. So you have to try to put things into perspective. I know it's hard. But there are a lot of things going on when it comes to the stock market. So that's why again, it goes back to what's the foundation of why you're investing money. To me, it's, I'm putting money to work, I'm letting businesses do that work for me. And so, by giving my money to businesses and then putting that money to work, they will give me more money in the future. And that's something you can bank on that in the short term.

There's all this noise with the stock market and all these different factors that are going into it. But over the long term, like the Braden quote that you mentioned, or Benjamin Graham is another great one. In the short run, a market is a voting machine in the long run. It's a weighing machine; that concept really ties hand in hand with the idea of giving your money to businesses, letting them do the work for you. And you have to turn off that short-term noise; otherwise, you'll drive yourself crazy. I don't care if you've been investing for two months or two decades. So you have to turn off that noise. Or you're gonna drive yourself crazy.

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Dave

9:16

Yeah, you absolutely do. I was listening to an interview today with Jason Zweig, who is one of the better finance writers out there. And he works for Wall Street Journal, I believe, all the time. Yeah. He's a great, super, super smart guy, a very, very good writer. He's really good at kind of breaking down difficult problems and ideas and explaining them in simple terms. Such people like me can understand them. And one of the things he was talking about today and his interview was listening to us with our friend William Green on the investor's podcast, and he was talking about this idea that we are our worst enemies. And a lot of times, when we're investing in particular, our emotions shins can really drive what we believe and what we do. And learning how to control our emotions is probably arguably the biggest struggle for people to overcome when they invest, and learning how to detach the emotional part of investing from the actual reality of what you're doing will go a long, long way toward you being successful in the market.

And I think that's one of the things that it doesn't get talked about probably as much as it should. But somebody like Warren Buffett and Charlie Munger, in particular, are very unemotional when it comes to investing in kind of their whole idea of what they're doing and how they do it. And they just don't react much. And I think if you can learn whatever trick it needs to be for you to be able to detach yourself from the emotional part of investing, whether it's the fear of missing out, because you see your friends, buying a particular thing, and it's you know, going to the moon, or in this circumstance where you're seeing things not do as well as they have over the last two years. And it can be a struggle. I mean, I struggled with it, too. But there are little tricks you could do. For example, don't look at your stock portfolio for a month.

You know, don't put your brokerage app on your phone, only look at it on your computer, just a little via just little things like that, that will make it more of a speed bump, as our friend Andy likes to say, to keep you from reacting quickly. And I think the other thing that you need to think about too, besides the emotional and mental part of investing, is when the stock market is going down like this; it's actually an opportunity, it's a sale because depending on what the company is, or companies that you're investing in, this could be a great time to buy something at a lower price. You know, we all go to Target and buy socks, and we all want a deal on our socks. Well, why don't we do the same thing with our stock? I mean, to me, that's something that when I see a company that is falling, that I still think is a great company, that I will buy more of it, because now that Mr. Market is giving me an opportunity to buy it for cheaper. And when the stock rebounds and returns to its fair, quote, former glory.

And then you get to reap those benefits of being, I guess, a contrarian investor. So another, you know, the fear and greed in the market. You know, Buffett always likes to say that he can make the most money when there's the most fear because that's when it gives you the most opportunities to buy things, as we did with Apple; he just did that recently with hp. And so there's, you know, there are all kinds of opportunities when you see something like that. So that's something to think about as well.

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Andrew

12:39

Thanks, Steven; I'll try to put myself in your shoes and give a personal example that I went through in the past. So I have a stock called Universal Forest Products; they do lumber distribution, essentially. So I bought the stock. The first time I bought it was in 2017 have added to it three times. Now, this was a stock that did really, really well for me. So it exploded up higher, I was feeling great about it, I was like this, I'm a genius, you know, this is this stocks gonna 10x you know, just all the great feelings you get, you know, they did a

stock split. And now I had more shares and all these great things, you know, you have all these great emotions, and then COVID hit.

And it was almost like, the higher you rise, the faster you fall. And so I remember I remember this in my memory has kind of burned in my memory, I remember looking at my portfolio, and the return on it was zero. So from 2017 to 2020. The return was zero. And I felt like, man, I wasted all my time buying this company, all of the great gains I had for what. But something that you have to keep in mind is this voting machine concept with the stock market. If you bought a stock and you bought it at a good price, and that price represents what the business is truly worth, then that crash that you see in the stock. Suppose the business is actually fine. It's going to snap back like a rubber band just as fast as it fell. And that's exactly what happened with the FBI. That's the ticker symbol.

So that's something to keep in mind. I think that not all stock crashes in your in the stocks you buy are bad. And they don't they certainly don't reflect the long-term track record of stock. I mean, think about the stocks you look at now. I mean, do you look at what they did today? Or do you look at, hey, what did they do five years from now? Ten years. If you examine those charts closely, you'll see times where they really crash really fast, but then they kind of snapped back, back up. So keep that in mind. And just remember, I mean in the case of UFP, I knew this is still a company that's number one, like the undisputed king of their industry, like nobody comes close in regards to size and their kind of business really helps where Like it's benefited from their economies of scale. So that was something that I knew. And so I just hold on, and then you start to see the compounding from the dividends from all of those years that just juice the returns in the future.

But you do have to wait for that rubber band to snap up. And so you know, sometimes you'll pick a stock, maybe you pay too much. I mean, I look at a couple of stocks in my portfolio now that are in the red. Domino's Pizza it's down 6%, Microsoft's down 4%; I think I probably paid; looking back, maybe I paid too high of a price for Domino's. But Microsoft, I look at that; I see that as an opportunity. Because Microsoft has customers that are giving business customers that they're giving them a percentage of sales every single year, and they're not switching from Microsoft, let me tell you to like, they're going to continue paying Microsoft, those huge and growing support bills, you know, it's the infrastructure for these businesses. So don't feel like you got to bat 100%, either, if you're batting more than 500, which means if you're getting more than 50% of your picks, right, you're actually doing better than the average because I don't want to get into the numbers. That's the reality. So don't beat yourself up on one single stock pick, don't beat yourself up on the short-term nature of the stock market. Just really try to give yourself some slack. Take a chill pill, maybe go hit the golf, go play around golf and forget about your portfolio for a minute. And just keep in mind that over the long term, things will get better.

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Dave

16:27

They will get better. And I think I agree with everything that Andrew was saying. And I wanted to relay kind of an experience that I had; I had the same issue with Ally Bank. So I started investing in Ally Bank in I think it was January of 2020. So right before the COVID experience happened and right before the market reacted, I bought it at around $34 a share. And then I bought it again the following month for around $32 a share. And then march 2020 hit, and it dropped like a rock. And I remember thinking to myself, Oh my gosh, what did I get into that? How did I really make that big of a mistake that it was really that wrong? And as I

kept thinking about the fundamentals of the company, even though the company dropped, I think it was the lowest rate was around $13 a share.

And so when I would look at my portfolio and see that it was just, you get a pit in your stomach, you think, Oh my gosh, I just you know, I blew that. And but I believed in what the company was doing. And I believe that everything that was going around on around it would rebound. And so I kept buying on the way down and was able to lower my cost basis to around 16 or $17 a share, which was huge because when the stock rebounded, and it has its trading enough $40 range, it was up in the low 50s At one point, and it more than justified my faith in investing in that company. But it came back to believing in the fundamentals of the business and what I knew about the business; it also came back to this idea that Warren Buffett has talked about, especially in his last few meetings that he's his shareholder meetings that they've had, that he's very bullish on the American economy and the American ingenuity if you will. And if you believe that the stock market, which represents all the businesses that make up our economy, will do well over a long period of time, then you will partake in that success by investing in those companies.

And think about if you invest in the s&p 500, if you're not a stock picker, you want to work on buying indexes or ETFs. If you bet on the s&p 500 for over 100 years, it's earned a 10% return, including dividends. That's awesome. And there's you can't find a bank that you're going to earn those kinds of returns now are you gonna miss out on investing in a Tesla, and it goes to the moon, you might find in Parsh. But if that's not your game, and investing in ETFs and indexes is your game, then, in essence, betting on the American economy to do well over a long period of time. And right now, the s&p 500 is underwater. It's negative compared to last year. But you know, I would bet just about anything that it's going to do well, maybe not the rest of the year. Who knows I'm not a prognosticator; I can't forecast anything. So. But do I believe that in five years, it'll be higher than where it is now? Absolutely. I do.

I would bet every penny I have that in five years, it'll be higher than it is now. And so I think that's really what it comes down to when you get a little bit down about how things are going. Think about the economy, think about the American economy and how it will rebound, and if the Buffett has been bullish on this for 70 Some years and I kind of believe in what he's talking about, and everything that Andrew was talking about prior to my little diatribe here is that's all great advice. Those are all things that can help you in the long run.

A

Andrew

19:59

Before we close on just going to hit on the dividends because I don't think I, maybe I don't paint the picture good enough because it just like clicks in my head, but I get so I get the idea that like, how can you get excited about 1% yield? You know, how can you get excited about buying a stock for $100 and getting $1 a year, you know, I get it; that's not very exciting if it doesn't give you the same returns that having timed Gamestop with it, you know, and tripling your money in like a week, I get that there are two parts of this, I think. So first, you have to remember that it's an income stream that you're getting from these dividend stocks. And oh, by the way, it goes up every year.

And so you get like a double compounding effect. So, you know, it would be nice to have jobs where everybody gets a nice raise every single year. But what about having an income stream where you get, I mean, a good company probably increase, high single digits, maybe 10% a year, not so good. Maybe the average company might increase its dividend by 5% to 3% a year, at least keep up with inflation. So this income stream you're building it's not just $1. Today, it's $1. Plus the raises you're getting every year, as the

business grows, all the sorts of great businesses that we can talk about that have grown over time, that's where you get a nice chunk of return.

Not only that, if you reinvest those dividends, you throw them back into you thrown back on the table, now the money you've made starts to make money as well. So you start to get a multiplying effect; it's almost like the branches of a tree. Spreading out, the money you make makes more money; you put that back in, that money makes more money. And oh, by the way, not only is your total stake growing higher because you're throwing those dividends back in, and those dividends are making dividends, but the amount of dividends you're making from each incremental stake is also increasing because, remember, we're getting a raise every year. So that's super, super powerful.

And it doesn't start to really get fun, until maybe 1015 20 years out really fun when you get to 40 years out. But, it takes a long time to wait for that. So I get why people don't get excited about that. But the last thing I want to touch on was when we talk about financial freedom, this idea of like, what is financial freedom? To me, it's being able to have a nest egg, essentially, that's funding your lifestyle, and you do not have to draw from it. So, in theory, you can live like that forever. And remember, you're getting raises because these companies are growing their dividends. So what's nice, you know, I'm always about drip drip drip for the back end or the back end. But at a certain point, you get to have a big enough portfolio where you don't need to throw back in anymore; now, you can start to reap the benefits of that. And so, if you have these stocks that you've been putting money into, the dividends are small now. But when you can finally say, alright, I don't need to throw them.

Now, those dividends can be really huge. And you can fund the lifestyle with those dividends. And so you don't have to be reinvesting them anymore, you can start to enjoy them. And that's where I see a lot of the magic of dividend stocks. Because not only do you like it, you get all the double compounding effects and all of that, you can get to a point where the stocks in your portfolio, you can turn off the drip hose, and then you can just enjoy it. And if it's these really great companies like being in Microsoft for last 20 years, imagine something like that, or, or being in target the last one, two years. That's a really nice place to be, and you're just taking the money that they're given to you and then spending it living your life how you want. That's financial freedom to me. And that's the power of dividends.

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Dave

23:51

rejoined brother. That was the Drip King, folks. So I think that's a great way to kind of end up the ideas that we're trying to convey to Stephen and anybody else out there that's feeling, feeling this way, it can be natural to feel like the market is always against you. And it's always going down. But if you kind of take a step back and look at a longer time horizon, that's really the advantage that you have and those kinds of things. Everything that we talked about today is things that you can use to your advantage over a long period of time. So without any further ado, I will go ahead and sign us off; you guys go out there and invest with a margin of safety. Emphasis on the safety. Have a great week. We'll talk to you all next week.

D

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