IFB251: How to Get the Most Out of My Companies Dividends + Investigating Brokerages

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Dave

0:00

All right, folks, welcome to Investing for Beginners Podcast. Today we have episode 251. We are going to answer three great listener questions that are kind of wide ranging. So this will be a fun conversation. So I will go ahead and read the first question. So here we go. I have worked for a publicly traded company that offers discounted company stock as a benefit, I can opt into, in addition to contributing to my employer sponsored 401 K, I also have a small percentage of my paycheck set to purchase this company stock. I don't really understand why I'm doing this, it just seems smart to automatically buy Bucha stocks at a discount.

So when on boarded, I created a computer share account and set it and forget it. I usually don't think about the account, but every quarter by company pays a dividend. I even received a paper check a few times that literally reminded me I'm doing this. My question is what should I do to get the most value from these dividend payments? They're small, and I believe they're already taxed. I've maxed out my Roth IRA contributions, so I can invest them there.

If I put them into my brokerage account, I want to be taxed again on the small payments that were already taxed. Any advice would be great. Thanks. All right, Andrew. So I'm gonna let you take the first stab at this.

Andrew

1:12

Okay. So yes, asking, won't I be taxed? Again, if I put these dividends on my brokerage account? The answer is yes. And that's why we advocate so hard 401, Ks and Roth IRAs, because they gave you a tax shield. So depending on what part if you're talking about when you get the money, shield on your income taxes, or you're talking about like dividends and capital gains taxes on the investment side, that would be the Roth side, the income would be the 401k. side, if you are not using either of those two, then every time you get a dividend that is taxed. Plus if you reinvest that dividend, and then if you sell it sometime down the line, it is also tax.

So that's the downside to investing in accounts where you are taxed. And actually, it's a big reason why people like Warren Buffett hold their stocks for so long. And investors have talked about this, because I think the Roth and the 401k, that's generally newer ideas. Some of these, like old time investors, they didn't even have those options. And so their best tax avoidance strategy was just never sell. When you don't sell, you don't have to pay capital gains taxes. So that's another reason of the many reasons why you'd want to hang on to a stock and find a good company that you can let continue to compound without taxes.

Dave

2:32

Yeah, that's all great stuff. So I guess a question that kind of popped into my head, would an HSA be an option?

Andrew

2:38

Yes. So an HSA stands for a health savings account. And this is a way to reduce taxes on your income side. So if you made $100,000, as an example, and you contributed 3000, into an HSA, you'd be taxed on 97,000 instead of 100,000. Similarly, if you had a 401k, you put 3000 in, you'd get taxed on 97, instead of 100. The problem with the HSA is you have to have a special insurance plan. So it has to be a high deductible insurance plan. I know like a company like Blue Cross Blue Shield, which we love, right? They explicitly call their high deductible insurance plan, an HSA plan.

So if you're not sure if your insurance plan is HSA eligible, you should ask your insurance company, or you know, if that's going through your employer, you should ask the benefits department there. But yeah, so it'd be a great option. Another option, you know, now that you bring that up, I guess you wouldn't directly be put it in your 401k. But you could just be contributing more into your 401k to make up for the fact that you're getting tax on dividends. I think this question is good, like the intent is very good. I think there's a little bit of confusion on the blue chip things so I'd be careful about like, don't confuse a 401k with your company stock at a discount because I've never heard of company stock at a discount with blue chip stocks.

Try to figure those things out. But I wouldn't really worry too much maybe about like reinvesting the dividends and paying taxes on those later unless you're training and and other stocks every day. Like take the dividend reinvest in the good company, and hopefully you're holding that company for 510 years anyways. And so how you decide to invest it at the end of the day when make a huge difference. Hopefully that will help.

Dave

4:29

Yeah, that definitely helped a question that pops into my head. So I'll give you kind of a scenario. So when I worked at Wells Fargo, they had this kind of idea that I could buy company stock and outside of my 401k And so I did contribute you to that for a while was kind of the same idea. It was kind of a setup, forget it. They just took a flat amount and bought a percentage for me every month.

And when I left the company, they stopped reinvesting the dividends. So Now I haven't taken the money out of that particular account. It's not a lot. But I don't want to sell those stocks because the price of the company, the shares that have the cost basis at the time, was around 45 $40. It's been a while since I looked at it, and the after I left the company with. And I had nothing to do with me leaving, by the way, but the stock price tanked. And so I just kind of forgot about it, because I wanted to wait for it to at least get back to breakeven, before you consider moving the money out of there the whole time, the company has been sending me paper checks for the dividends, it's a whopping 10 bucks, I think every quarter. So it's $40 a year, you know, it's not exciting, but I take that money, and I put it either in my HSA or I put it in, or my Roth IRA, if I had a brokerage account, I would just do that. And I would just reinvest, it's 40 bucks, and I'm not gonna get too excited about it.

But if it's a bigger amount, then obviously the tax benefit or impact could be a little more challenging. I guess the question, though, kind of backing into what I was going to get at, if you're already getting a company match, which in a lot of companies is going to be a larger percentage of the company you work

for. And then you're also contributing to something like this, what are your thoughts on kind of getting your 401k or your, I guess your investments skewed more towards the company you work for, as opposed to a more well rounded, diversified portfolio, because at one point, my 401k, slash site investments had gotten to read 35 40% of my total investments. So that's, that's a lot of money to be banking in one company. So I guess, what are your thoughts on that?

Andrew

6:38

And that's scary. I mean, they talk about Enron was a good example of this. And it's, it's really sad. People were asking Enron because Enron used to be like, trying to think of like a good parallel to a company today, somebody who just like grows earnings per share by like, 10% a year, every single year, just huge company, plugin, whatever, like, particular name that, like you would think this is a great company, and the CEOs are very, the CEO is very popular. Enron was like that.

And they famously, a CEO was famously asked by an employee, hey, you know, I have all of my 401k and all of my stock in this company, is that a good deal? And he's like, laughing and he's like, yeah, it is, you know, like, you should put everything into this company. And they went bankrupt. And that's the problem. Now, not only did you lose your life savings, but you lost your main source of income. And so I mean, to me, the biggest risk is having that happen, where you would lose a big chunk of your life savings and your income. In the very worst case, those cases are super few and far between. But good financial planning is trying to reduce those kinds of risks as much as possible, there is a lot of risk in carrying like 40% of your life savings in a single company, even if that company's somebody like apple.

So something you could do is take the discount, which people get when they buy the company stock, and then you just sell it, as soon as they're allowing you to sell it and you take the discount and you sell it, and then you redistribute it into other stocks or other investments to keep more diversified. Because there's not much upside to doing that. And then you're just taking bigger risks and get more Gamble's there is like a super life crippling downside that you can simply avoid by diversifying. That's

Dave

8:30

great advice. And I Where were you like seven years ago? So I could have taken that advice, but it wasn't asked him the question. But it was just something that kind of occurred to me as I was kind of reading through the question that this person's diversification could start to get a little bit skewed as they go along.

And even though that's not what they're asking, I just thought it would be kind of a pertinent side information to share with people.

Andrew

8:54

Yeah, it's funny, you bring it up, because I was having a conversation at lunch with a family member yesterday. And they were talking about their stock their employer stock plan to, and they knew it wasn't the type of stock that I buy is very growth II type stock. But I was there like, should I just sell it because like, I could still get down to the profit. And I was like, Well, do you like the company? And they're like, No, it's all false. It's like, Well, why would you even hang on to the stock? Right? Right.

And sometimes it can come down to something as simple as that, you know, right. If comfortable taking more risk, because you think it's a really great company. And maybe you've done some research on it. That's one thing. But yeah, it's like a sunk cost kind of fallacy. It's like, well, I already got my discount, you know, I'm in it. I might as well just stick around and right. You got to try to fight against that. Yeah. Yeah,

Dave

9:43

that's good advice. And that's a good share. All right, let's move on to the next question. So, as you know, there are more and more platforms to trade with now. And in the last few years, we have seen the rise in trading platforms with very low or no fees. And it seems too good to be true in some cases. In Australia, we have superhero shares ease and steak, for example, they're designed for the younger audience and have less features. I have an account with CommSec already, which was already some great features. And as well established being part of our biggest bank, is there a risk of long term trading with one of these newer platforms?

I plan to use other resources, such as CommSec to do my research, could the newer platform go under and I'm not protected? Also, if I'm not happy, can I easily change to another platform without losing much of what I've gained? Thanks again, Josh. So Andrew, this is a great question. We did a little research on this. So let's share what we know. I feel

Andrew

10:37

like it's a very timely question, given what's going on in the last several weeks with crypto meltdowns. So I was hoping maybe you could talk about like, the FDIC, and then the SIPC and how those protect your banks and your brokerage accounts if you're in the United States, because I think give some context. Okay.

Dave

10:58

So the FDIC is insurance that was set up for banks to protect any assets that you have in the bank. And that includes savings accounts, CDs, checking accounts, things like that, brokerage accounts fall under a different umbrella. But anything that you have in your bank is FDIC insured up to $250,000, I think is the correct number now, and that includes all of your accounts. So it's not individual accounts.

So if you have five bank accounts with $250,000, or more in them, unfortunately, not all of those accounts are protected. However, if you do have a large amount of wealth in the bank, up to $250,000 per person is included. So if you're married, each spouse would have up to $250,000. So if you have a joint account, that means that you guys would have half a million dollars would be protected of your money. So what that means is, if something like what happened with FTX, and there was a air quote, bank run, the bank would not run out of money, because the bank, the government will guarantee that you will at least be able to get some of your money out of the bank. And from what I understand with what happened with FTX. That was not the case.

And So therein lies the benefit of FDIC insurance. And this is something that was established after the Great Depression, because there were runs on banks at the time, there was not a federal government overseeing the banking industry, it was all local and all done at the state level. And so it was very easy to have a run on a bank and for a bank to fail. And in today's day and age, that's almost virtually impossible. I wouldn't say impossible, because nothing's impossible, but it's very, very, very unlikely that something like that would happen.

And that's what gives a lot of stability. And that's why putting your money in a savings account is considered one of the safest things you can do. That also doesn't pay a lot but that's a whole other conversation. SIPC insurance is kind of is along the same lines are brokerage accounts here in the United States. So anything that is registered here to trade in the United States has SIPC insurance, and it kind of covers with the same kind of idea, you get a certain percentage of money if the brokerage would go out of business. Let's say that Schwab went out of business, some saying Schwab's going out, they're not in any danger. So please do not take this, like, Oh, my God, they're going no, not happening. But if that did happen,

the government would cover a percentage of whatever you had remember the exact number off the top of my head, but it would protect money in your account.

That's what we have here in the United States. Now, this also applies, if I understand correctly, if a brokerage is trades outside the United States, but is registered here in the United States, it's still as covered under the SIPC insurance. So at least here in the United States, that's the advantage we have. And that's also kind of not what is going on in crypto right now. And that's why it's been really scary. But I think I want to kind of allay any fears of something like that happening at your local bank.

So if you bank a Bank of America, there's not going to be a run on Bank of America, and you're going to lose all your money, just the way the system is set up. It's set up. It's designed to prevent that. And right now in crypto, they don't have those kinds of regulations. And therein lies the riskiness of investing in crypto, again, not saying crypto is bad, not saying that doesn't have any value, any of those things, saying that there's been some bad actors. And some of the things that have happened recently can't happen in crypto because they don't have those protections in place.

Andrew

14:37

And it's super key to remember that I mean, I remember when Washington Mutual was, was getting a run on it. And so that was bad for Washington Mutual and they did go bankrupt. But the customers who had deposits there, they were all covered so even though they were just running because that's what people do. They were in reality actually covered. And that's that's tricky. It helps you like sleep at night when you see the memes going around and people talking about the crypto thing and you start to lose faith in the system.

That is one of the ways I guess America has been spoiled by our our crisis's is we've built protections into it. And like you said it applies to brokerages to I guess in the case of these Australian brokers, why did you find because that way, when you start to expand internationally, I think that's where things start to get a little more

Dave

15:34

tricky. Yeah. Unfortunately, we work with a country by us because we're here in the US. So we're more familiar with us rules. We did a little poking around on Google machine. And we were able to find out that there are the ASX, which is the Australian Stock Exchange, where companies trade equities. They do have a

protection setup similar to the SIPC, we weren't able to find specific limit amounts. But there is insurance that is set up for brokerages if they are registered on the ASX.

And so Josh listed three different brokerages for example, and superhero we're able to find so they are listed on the ASX as a registered brokerage account, which means that they do have some protections, if there was a problem, and the brokerage went out of biz shares these and stake I couldn't find any examples of them having any sort of protection. So I have no way of confirming or denying whether they are or aren't. So that would be something that if you're interested in investing with them would be reaching out to that particular company and asking them Hey, are you registered on the ASX? And do you have any protection in case something happens?

And by law they have to tell you? And so that's something that could help you protect it? And I guess, you know, that's kind of what I know, I guess kind of to answer Josh's question, can these newer poor forms go under? And I would say my says yes. What do you what do you say?

Andrew

17:04

Yeah, I think anything can go under. And things certainly have and you know, the ones that over expand too quickly or get too aggressive. Those are probably prime suspects.

Dave

17:14

Yeah, can you? You know, the other part of the question he asked here too is can you easily change to another platform without losing much of what you've gained?

Andrew

17:23

I feel like that would have to be a conversation, like you said you have with the brokerage itself. So when I've done broker changes, they had to sell my stocks. But those were also rollover. So I was rolling over from one type of retirement account to another. It is, I could see it being possible where they just transferred shares, maybe and nothing gets sold. But I can't give you this specific answer to that, because I haven't done it myself. And I would imagine that based on the fact that I did two different transfers, and they happen two different ways.

Depending on who the brokers were. Makes me think that these are all kind of case by case situations. And you just have to see which broker you're transferring from and which one you're transferring to. And maybe that makes you think maybe I should if you're in this situation, maybe you think a little harder about which broker you start with because it might not be as simple as as things logically shouldn't be

Dave

18:19

exactly when you're dealing with equities and stocks, it can get a little more complicated than just taking your dollars out of an account and depositing them into another one. There's some legal rigmarole you have to go through because of the nature of what you're doing. And I guess my suggestion to Josh is, if this is something that you're serious about, do a little bit of due diligence on those platforms, just like you would if you were buying any company, and explore and ask those questions, it's as simple as just calling up the brokerage itself and asking those very questions to them. And they will have to answer those questions and tell you and if they don't know, or they don't answer them, then I think that probably answers it for you.

And then you can make a determination from there. And without knowing what kinds of retirement accounts and what kinds of different kinds of brokerages you can and can't open up in Australia, I would hesitate to, I guess answer any further. Just because again, I'm sorry, my home bias is rearing its ugly head, and not something I'm as familiar with. But if anybody out there has any information that could help Josh, we would love to share it with our listeners. So please, by all means, let us know and we will pass that along to

Andrew

19:33

Josh, for our listener who's tuning in for the first time this is like their first exposure to investing. We have done our due diligence on us brokers. So who would you recommend for US investor?

Dave

19:46

Well, the two that I use that I like a lot are Schwab and fidelity big fans of both of them. The customer service has been great. They don't charge any fees to buy or sell individual equities, which I like are stocks and their platform They're easy to use, they're easy to open accounts with. And I've had no issues they also offer, Schwab not quite as liberally, but they do offer the ability to buy partial shares of companies, and

particularly anything that's traded on the s&p 500. So that, to me is the bonus and advantage. And I've been very happy with both of them. How about you?

Andrew

20:20

Yeah, my favorites, fidelity, I also have show up, and then I'm happy with it. And I do like Merrill Edge, which is owned by Bank of America simply because it's convenient to have that show up on your Bank of America. But they don't do partial shares. That's the one

Dave

20:38

problem. One downside,

Andrew

20:40

all three of those are very reputable. They're, you're covered. And I would not sweat for one second having my money with them. No, no,

Dave

20:49

we do. All right, let's move on to the last question. So we got Hi, Andrew. Thanks for the update. I recently subscribed to your mailing list. And so far, I found your emails quite interesting and useful. Anyways, one question I have, is there no room in your investment strategy for investing in new innovative companies with novel ideas slash inventions, but are not yet making profits or paying dividends? David? So that's a great question, Andrew, and turn the floor over to you, sir.

Andrew

21:15

Yeah, I love this question. Thanks, David. And thanks for your comment on the emails. For me, I don't see as statistically a good deal to look for these type of companies. And so unless you have some special insight, or some special abilities into investing in companies that are innovative, so let's take that part first, the innovative companies novel ideas not making a profit, statistically, those companies do not do well over the

long term. But the ones that do do well do so well, that they take a lot of attention. And people tend to remember those.

And when we don't remember the ones that didn't fail. So like one example of a study you can look back on is somebody took all of the IPOs of a couple decades, and then held them for a long time period. And you had like, I think you had like, maybe Facebook might have been in there and like some of the really good IPOs. But as an entire group, they returned something like one or 2% a year compared to the s&p, which is returned 10%. So again, statistically, you are not going to do well by a group of these companies. Not to say that somebody smarter than me can't figure it out, or might be good at it.

But I think if statistically most of these won't work out, statistically, most of the people who try to buy this way, also will fail. That's just just the simple math of it. So I don't think of myself as special in that particular figuring out new ideas or inventions. So I just stay away from that. And I recommend most people to as well,

Dave

22:57

it sounds exciting. And it can be very exciting to investigate and invest in these companies. You know, it gives you that sense of like I'm in a hot new thing or those kinds of ideas. But I'm gonna give you a couple examples of why this can be really hard to do. So first, let's kind of look at the what's going on in crypto right now, there's a lot of stuff washing out, there's a lot of companies going under a lot of companies failing, there's a lot of companies going bankrupt. FTX is of course, the big name right now.

But not too long ago, there were other names, I'm going to blank on them right now. But the point is, is that it's still in such early innings with what's really going to eventually wash out with crypto, that there is no certainty that you can really place any bets on any one company being the winner of all this. And when you're investing, you're trying to determine as best you can based on the knowledge that you have, in your experience, what kinds of bets I can make that I think are going to be successful.

And there is nobody that knows for sure that Company A is going to be the next Google or the next Microsoft or the next meta well, maybe meta is not the great example right now. But you don't know the research that Andrew was just quoting about IPOs and how they've done over the last 20 years, if you invested into those that should be eye opening to people because that's what gets all the you know, adulation. And that's what gets everybody excited is about all these IPOs. But, and then everybody always refers to Amazon or Netflix. But that's survivorship bias. We're looking at how great Amazon has done. But

what about all the 15 other companies in the same kind of business that didn't survive? When nobody talks about those are very rarely. And so our bias is skewed by how well Amazon has done. And look.

Hey, this is how great Amazon Yeah, it has. There's no question that but what about the other 10 companies that have not done well? And I'm also going to throw out there The whole FinTech space. This is something that I've been looking at very closely over the last several years. And I've gotten to know it decently well. And this is something that even more experienced people than me in the FinTech space are saying that we're still in early innings. And we don't know who's going to win and who's not going to win and what's going to wash out or what isn't going to wash out.

And there's going to be lots of consolidation, there's going to be lots of mergers, and there's going to be a lot of companies that are going to fail. And that's just the nature of capitalism. And that's kind of how it works is people come up with great ideas. And maybe the great idea is an executed well, or maybe the great ideas and popular with enough people to make it profitable, that it can't survive, at least to the point where somebody else can take it on, and, you know, merge with some other business and become a better part of the business. And so when you're investing, we have to determine what we think are going to be the best investments for us in the long run. And sometimes these novel ideas or inventions, they can be great, and they could be world changing. But there's also going to be a lot of competition for those companies. And as time goes by, there's going to be winners and losers.

And it's really hard to pick the winner or loser. And I'm going through this right now I'm trying to learn more about the cybersecurity space. And there's lots of great companies kind of competing in the same niche. And none of them are profitable. And some of them are growing faster than others. And it's hard to know which one's going to be the winner or not. And so I can't pull the trigger yet, because I don't know if CrowdStrike is going to be Cloudflare or data dog or MongoDB, or you know, insert name here, I don't know which one's going to be a winner. And I can't buy 10 of them. And so it makes it hard.

And I'm not saying that you shouldn't invest in these companies. And you have to do what's best for you and what you're comfortable with. But for me, I want to know, I want to buy companies that I know that are going to have cash flows that I can project into the future and are profitable are going to be profitable tomorrow, and for the long term. And so that's how I base my investments. So I guess I hope that helps answer that question.

Andrew

27:16

I hope it does, too. You know, you talk about that stage of capitalism. And how it can really be a lot of cannibalism is a lot of washing out. But once an industry gets past that, it gets much more matured. And you have these companies that stay dominant, and those produce profits and cashflow. And that's why those are much more reliable to invest in. Because their industry has gone through that early stage, it goes to a more mature stage. And then you can find great companies like Apple, Microsoft visa, who stay that way for decades. The best ones do and can be great investments. And you don't have to have a crystal ball to be able to figure that those kinds of investments out.

Dave

28:00

That's perfect. All right, folks. Well with that we will go ahead and wrap up our questions for today. Thank you guys for sending every all these great, fantastic questions. This was a lot of fun. And hopefully you guys are getting some good takeaways from all this. If you are enjoying our show, and we would love for you guys to give us a five star review. And the more five star reviews we get the higher we go in the rankings and the more people can find us and the more people we can help.

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