IFB274: How Are Our Accounts Protected/Diversifying with ETFs/Books to Continue Your Investing Journey

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[00:00:00] **Dave:** All right folks. Welcome to Investing for Beginners podcast.

Today we have episode 274. We have three great listener questions we are gonna answer today. So without any preamble, I will go ahead and dive right in. So here we go. We have Hi guys. Thank you for all the great work you're doing on the podcast. Something I've been trying to research for a while, but with limited success is likely more relevant given the banking events of the last few.

What are the congruent risks in investment accounts? Should a major brokerage fail? What would be the investor slash consumer impact? Would our stock bond and other assets be better protected in this scenario? What if we're holding cash in these accounts? Thanks. Keep up the great work, Mike. So Andrew, what are your thoughts on Mike's?

Great question. Given all the banking brew haha, over the last few weeks. Haha is a great word for it. Yeah. Well he used congruence, so I gotta, I gotta keep up with him. There you go. Good luck with that.

[00:00:54] **Andrew:** Yeah. The short answer is yes, you will be protected. There are limits to it, but you will be protected. So, In the banking world with your checking account, it's F D I C protection and in the brokerage world it's S I P C protection.

So Dave, do you want to tackle one of those and talk about it?

[00:01:14] **Dave:** Sure. So F D I C is insurance that provides $250,000 in accounts to. If you, the bank fails, for example, then you, if you, you get up to $250,000 per account that you would receive back in, in cash. So that's insured. With the recent brew haha with banking there has been some discussion about raising those limits.

There's been some discussion about making, basically making everything insured, covering all accounts, regardless of whether you have $3 or 300 million. They've been talking about that. Whether or not any of that comes to pass, who knows. But with the recent failure of S I V P, Bank, the Silicon Valley bank, that came very much into focus in question.

For most of us, that that's not really a concern. But for those business accounts in particular, that was was an issue. So 250,000 is what we're insured for, whether it's a checking account, a savings account, or a cd, any of those types of accounts are all covered under that insurance.

[00:02:18] **Andrew:** And now for the brokerage side, it is very similar.

So it's called S I P C coverage and you have 500,000 in coverage per account and that includes $250,000 in cash. So to use an example, if you have a brokerage account with Schwab and Schwab, I don't see them doing this cuz they actually have a great balance sheet. But the sch. Was dumb with investor money and went bankrupt, you would still be protected up to 500,000 per

[00:02:47] **Dave:** account.

Yep, exactly. And I guess the one last thing I want to kind of throw out there about this is there, there's been a lot of discussion about banking re recently and really what happened in particular with the two banks here in the United States is people got. It wasn't a systemic problem with the banks per se.

It was just some people made some very poor choices on how they were investing the money the bank had and when there was a run on the bank, that was, is what caused the problem. It wasn't because, you know, banks are systemically bad. It's just these individuals that were running these particular banks made some very poor choices.

And when kind of push came to shove, that's what caused the banks to fail. Extreme simplification, of course, but I, I feel like I need to say that as, I guess the bank geek here to, to help people realize that you know, your bank, the money you have in your bank is safe, so you don't need to worry about that.

[00:03:45] **Andrew:** That's very well said. It's simple, and I think it communicates the reality really, really well.

[00:03:50] **Dave:** Thanks. Thank you. All right. Well, let's move on to the, Question. So this is from Jasper. Hi Andrew. My name is Jasper. I recently started listening to your podcast, starting with the ones that date back to 2017.

I am super new to investing and trying to learn more about the different concepts and te terminology. One question I do have is regarding ETF funds. So I have a taxable brokerage account with a Vanguard total. Et tf, would it make any sense to buy another type of ET tf since the one I have covers the general stock market?

So Andrew, I'm gonna let you take first stab at Jasper. Jasper is a great question here.

[00:04:26] **Andrew:** Yeah, it's a great question. So ET t F for if you're an absolute beginner out there, an ET TF is basically a vehicle that buys a basket of stocks. So instead of having to buy a hundred stocks or a thousand stocks, I could buy the ETF and the etf.

Holds those stocks for you. So the total market ETF from Vanguard covers the entire stock market. And so that looks beyond just the United States and L takes, you know, a lot of companies under the developing world. I don't know exactly how they characterize exactly which company's gonna go in or out.

That's what they're looking for. So, It kind of depends on your goals. And Dave, you were kind of, you were kind of talking off air about that, that there's no one size fit all answer to what's the most ideal investment choice for you because the most ideal investment choice for you is whatever makes you behave in the best way.

That you should behave to get good long-term results. And when you're investing, the best way to behave is to invest and hold for the long-term. Again, very, very simple, but not so easy in execution. And so that's why if you really wanna start to dive down the rabbit hole, which you should, which helps your behavior, then you kind of have to ask yourself, okay, to what extent do I wanna.

Make changes. What am I looking for? What's my goals? And maybe those are some hypotheticals we could try

[00:06:04] **Dave:** The answer. Yeah, for sure. And I, I think the, the behavior part of it I think is, is, is a big, big part of investing. And it gets some conversation, but probably not enough. And, and I think Andrew's comment there was spot on the idea that whatever you're doing that can cause you to continue to doing a good behavior is a great thing.

And I think that's something that should be applauded and trumpeted and also I. Amplified and I guess for Jasper, you know, to, to answer this question, we don't have all the particulars we would need a couple things that kind of spring to mind when I think about this question for Jasper is, number one is what are your goals?

What? What are your goals for investing? Do you want to be more involved in what you're doing or is it something that a, I know I need to do? B, I don't have a lot of time. C maybe I don't have a lot of interest per se. And when I say interest, I mean interest that you wanna spend your free hours reading financial reports and studying the great investors.

And if you don't wanna do that, then that's totally okay. Then maybe you just wanna learn a little bit about other opportunities and just stick to that. The, the thing with ETFs is that you can mix and match these two, you can go nuts and have like 50 different ETFs or you can have one. I mean, there's, there's so many different ways to invest and it really, I guess the first question you'd wanna ask yourself if you're Jasper or anybody else that's kind of thinking about this, What are your goals for investing?

Is it to save money for your retirement? Is it to try to build your wealth and do you want to do it as simply as possible? And maybe it's not. Uber important. Whether you pick Microsoft or Apple, like that is not a burning question for you more, it's more about trying to maximize your investments as well as your life.

And if that's important to you, then hey, you know, doing something like this is. Perfect. And I think the thing that I would think about would be what are my goals and how much do I wanna really be involved? Because if you really wanna be involved, I think there's a whole rabbit hole that you can go down to try to find other things.

Do we wanna explore that for a minute?

[00:08:28] **Andrew:** Yeah, for sure. I guess before we do the. The goal of just buying the total stock market index fund and just being done with it. Can we unpack that a little bit? Like who does that work for and what is it basically accomplished for

[00:08:47] **Dave:** somebody? Well, the, to me it accomplishes.

I guess several things. Number one is it establishes a habit that's easy to maintain. There isn't a lot of effort and a lot of work that needs to go into it. You can easily set up a, a payroll deduction from your paycheck to Vanguard in your Van Gunner account, and they will automatically de. You know, invest it into that ETF for you on a, on a biweekly, monthly, however, you, Herman, you want that to happen.

They can automate all that for you. So it happens without you having to do anything. And in a lot of cases, that's a great way to go because then you're not forced to go through all the rigamarole of transferring money and, and deciding what you wanna buy and, and. You know, time and so it helps establish the habit of, of continually investing, which is, I think a, a fantastic thing.

The other part of it too is it eliminates any of the guesswork or any of the stress of trying to decide what it is I want to invest in. You know, investing in the total overall market gives you the opportunity to participate in. The world's greatest way of making wealth for ourselves, and that's investing in the stock market because you're partaking of not only the United States, but also maybe what's going on in Europe, for example.

And so you can get kind of the best of both worlds with that and. I, I think it's a, a great, easy way to get started and you don't have to just stay with that. If there are other things that you want to do. You can mix and match these things. However, works. There is no one size fits all or the optimal best way to invest.

It really comes down to individual preference and your goals are, and what your risk tolerance is and how much, and how much effort and, and I guess time you wanna spend on something like, And I would say

[00:10:41] **Andrew:** there's just, there's, there's, the best way to put it for me is there's trade-offs to everything.

So a, the benefit of a total stock market index, the one that Vanguard offers, which I misspoke. It's not the whole world. They just do us. So I probably should have looked that up. I obviously don't invest in it. So the upside to that is you're getting pieces of. Pretty much the entire US publicly traded market.

So as long as the US does well, you are gonna do well. That's the upside. The downside is that because it's spread out so much, you might not do as well as another investor who doesn't spread their money out as much. And then that's where the question comes. Okay. Well, like you were saying, Dave, do I have the time I wanna spend to try to.

Have better performance than the overall stock market. Do I think I'm gonna be good at it? And then also, how much risk am I taking to try to do it? And am I humble enough to understand if I'm taking more risks than I should? Those are all things that, that can kind of weigh into that formula. But I think for most people, if they're wanting to take a hands off approach, I would say either do.

This total Stock Market index ETF or do an s and p 500 etf, which is similar. It's just 500 of the more bigger companies instead of thousands of companies. And so that one tends to do a little bit better over the long term, but It could also not, depending on what time period you're looking at. So that's why I say there's trade-offs.

There's no better or worse answer. There's trade-offs and, and you just have to kind of. Consider all of that before saying, okay, this is exactly what I'm going to do. Right. And to your point, it doesn't need to be the perfect plan when you're starting.

[00:12:41] **Dave:** Right. Exactly. And in the, in one of our favorite books the Intelligent Investor, Benjamin Graham, who wrote the book, and for those who are not familiar with who Ben Graham is, he's really the father of value investing and was a huge mentor for, for Warren Buffett when he first started off investing.

He basically categorized all investors into two camps. One camp was de defensive investors and the other one was enterprising investors. Andrew and I would probably fall in more of the category of enterprising investors, and what Jasper is talking about would fall under the category of defensive investors.

And basically what that means is He felt like defensive investors were people that were gonna be more passive in, in their investing style. Were going to look at these kinds of investments as things that they would invest in on a regular basis, but weren't gonna do a lot of work, and weren't gonna trade a lot, weren't gonna buy this and buy this and buy this and sell this and, and, and do lots of activity that's more.

We don't do that, but that's more you know, an aggressive offensive type of investing as opposed to a defensive style. And so it really kind of depends. But within that defensive investing style, you know, to, to Andrew's point, if you want exposure to emerging markets with the ETF world, you have that opportunity if you want to, and you can take a 1% allocation, and you can even do it all under the Vanguard umbrella.

They have. Literally any kind of flavor of et tf you want that you can pick and choose if you want to have, you know, I'm just gonna throw out styles, you know, small cap value funds or mid-cap growth funds or dividend growth, investing the world grow oyster if you want to have a, you know, a more broader range of, of different kinds of ETFs that are available to you if you want them.

Now, like Andrew was saying, very astutely. It comes with trade offs. If you wanna have. That diversification or the, the spreading of your investments, you're gonna have to spend more time watching them, paying attention to them. They may not be as easy to manage as far as having regular investments. So there's gonna be trade-offs to, for, to doing those things as well.

But the flip side is you could earn better returns maybe than you would for the, for the, this total stock market return E T F. It just depends. And, but again, it all comes down to what are your goals, what are your risk tolerance, and what kind of investor do you wanna be? And I've said this before and I'll say it again.

There's no, there's no shame, there's, there's no winner for complexity. It's really comes down to what's gonna work best for your life and what will get you where you wanna go and, Sticking with the total market

ETF is the best way to go for you and your life. That by all means, embrace it, go with it, and go do a thousand other things.

If you want to be more involved, then you can certainly do that. The world is your oyster if you want to.

[00:15:37] **Andrew:** Yes. And you know, just having one etf, to me it is diversified because inside the ETF you have the diversification. So all you gotta do is just invest into that, if that's what you wanna do, and then you gotta hold on.

And that's because

[00:15:53] **Dave:** that's the hard part.

[00:15:55] **Andrew:** That's because the stock market can be very violent, like a rollercoaster in the short term. Right. But over the long term, just like the economy grows, so there's a stock. But you gotta hold on to get those gains, otherwise,

[00:16:08] **Dave:** good luck. Yeah, exactly. You know, if you look at a chart of the stock market, if you zoom in on like a five year period, it's gonna, you're gonna, it is gonna look exactly like, you know, a rollercoaster at Six Flags.

It's. Up and down huge drops and whatnot. But if you zoom back over a 20, 30, 50 year period, it all smooths out. And you see this kind of gradual up to the right. Nobody can see me doing this, but it up to the right. And that's really what you, you will get if you hold through through those periods that Andrew was talking about.

And that's, that's the hard part. And that's where the psychology comes into it. But if you, if. If you do something like this, I think it would be a lot easier because you just said it and, and just don't, you don't have to look at it every day. You just put the money in and then every six months look at it and go, wow.

Well that's awesome. So I think it's, you know, it's, it's a smart way to do it. Yep. Alright. Okay. All right, so now let's move on to the last question. So we have. Hello, David Andrew. I'm a fan of the podcast and have a growing passion for investing. I have read The Unintelligent Investor some Peter Wench books am in the middle of reading the Warren Buffet letters.

I'm focusing on learning to understand a business better from looking at the financial statements. Do you have a recommendation for our book I should read next based on this? So Andrew, what are your thoughts on this? Great question. I mean, there's a couple I

[00:17:32] **Andrew:** could think of. I'm curious. What you think the next natural step is here Because I, I have a couple that like, I could throw into the mix, but I don't see one as being like, Ooh, this is a, a perfect

[00:17:45] **Dave:** transition point.

Right. There's a couple that I think I've come across in my readings that I think are. Pretty good starting points, at least to kind of get you started down the path. One is by a gentleman named Mihir Desai and probably butchered that name. And he is a professor at the Harvest Business the Harvard Business School, and the book is called How Finance Works, the HBR Guide to Thinking Smart About.

The stock market. And basically what he does in this book, which I thought is kind of cool, is he takes a couple different companies and he walks you through each of the company's financial statements. So he walks you through the income statement, the balance sheet, and the cashflow statement. And he uses different examples of sales that that Netflix, for example, might offer and shows you how money would flow through the statements.

So you kinda get an idea of. Of how they're connected and the definitions and stuff. And he does a pretty good job of, of dumbing it down is not the right word for it, making it, making it easier to read for mi mortals. So even though he teaches at Harvard, it's not, you know, he's not using $75 words for every single sentence.

It's, it's, it's simpler language and it's, and it's easier to understand. And I, I found it to be a great book even though when I read it, I still felt like I understood all these idea. Fairly well. It just, it was a good, it was a good overview and I thought that was a, a, a real simple one. So that was one.

The other one that I would throw out there is this I read a while ago. This is the Warren Buffett and the interpretation of financial reports. So this was written by David Clark and Mary Buffett. And it's a, it's an older book and some of the terminology is a little older, but I thought it was a great book to kind of help me get started with learning how, how the financial statements work and, and kind of going from there and, and given the fact that they're analyzing, you know, Warren Buffett and kind of talking about how he would look at it based on his, his writings and his talks through the years.

I thought it was very,

[00:19:52] **Andrew:** Ah, I didn't know you had the book that actually walked it through. That's almost just perfect. I can't, mm-hmm. I can't top that, so I'm not gonna try the, the way I'll answer this question is kind of from a, a bigger picture idea, and that's just, just follow whatever's most interesting for you.

So if I think about like, my journey to learning accounting and stock market metrics and financial statements, And maybe it's just me and you know, you could be a completely different personality, in which case ignore this advice. But if you're like me, I like to just kind of follow what's interesting to me.

And I can't remember if it was Seil Bloom or somebody who's like got really profound ideas, said something like, quit. Was it Shane Parish? Quit more books. Then, is it Shane? Yeah. Is basically, quit way more books than you think you should. And so what I mean by that is like if you're trying to learn about something about financial statements and you're just running into a brick wall, then quit and then find something else that maybe can teach you better because you're not, you know, kind of like learning the language.

You're not gonna learn the language overnight. You kind of have to let your brain absorb it over time. And so my path to learning the cashflow statement might look very different than yours. And so I would just say don't be afraid to like jump in and outta books, and if you're intimidated by a book, try a different one and understand that.

You can take your time to learn these things and you're not, you're not gonna be able to do overnight and that's okay. And that's natural. So if you're feeling discouraged, that's the advice I would give.

[00:21:38] **Dave:** Yeah, that, that, I think that's great advice. I think one thing that I would throw out there too is, Andrew's gonna love this.

Think of it like the pizza analogy that I like to say. It can get confusing and overwhelming when you're looking at, at all of the information in totality. But if you take it piece by piece, like eating the pizza, you'll be able to work your way through how these different statements work, the different accounting terms and everything.

And it could be a little overwhelming. And it was, for me at first, it, I didn't quite. Get it at first. It took me a little while to kind of understand how they connected and the different terminology and what those different things mean. And I think it, it's like anything else, it's kind of like riding a bike.

Once you do it and understand it, then it, then it, it'll come back to you very naturally. But it takes some practice and it takes some getting using. As a, as a regular, we have to think about it as a language the language of accounting. And like Buffet said, if you can't, if you don't understand the language of accounting, you, you're gonna struggle to, to, to analyze companies because that's what they all operate on, is the language of, of accounting.

And so using these different books that we're talking about, the references, Andrew's ideas, These are great places to start, but I think your curiosity will guide you and if you get curious about how do I calculate free cash flow, where does that come from? Even just starting something like that, which only has a few inputs, it'll you'll start to understand where that fits on the free cash flow statement.

Or the cash flow statement and where the inputs come from and kind of how they connect to each other. And it, from there, you'll start to, you start to build on your knowledge and it'll compound. And before you know it, you'll be like, oh, I understand this stuff. Cause the, the nice thing is, is that once you learn it, it doesn't change much.

And so an asset is an asset. A liability is a liability. It doesn't change much. The people that govern accounting standards don't, aren't known for their. Quickness of making decisions on change. So you're, you're, once you understand what an income statement is and what revenue is, that's not gonna change.

So that makes it easier. It's, it, it's more of a, it's less of a moving target. And I, I find that that kind of thing helps a lot, but the more you use it, the more it will become more natural for you to do it. So a great thing that I did was I looked. I looked at a company's cashflow statement and then I compared it to the book I was reading and then tried to kind of match the terms.

And as I started using it more and more, then it started to make more sense to me. But that's just, that's just the way that I'm built. That's kind of, I like, I have to reverse engineer things and then once I do it, then I understand it and then it makes a lot more sense to me. But I think these, these resources will definitely get you on the way, but the fact that you've read the Intelligent Investor, Peter Lynch and are reading the buffet letters is gonna put you miles ahead for sure.

And. You know, the buffet letters alone are gonna teach you so much about this stuff in particular, and you can even take advantage, advantage of some of what he's talking about and look at their, their financial statements to kind of compare what he's talking about and help start, put the pieces together.

[00:24:48] **Andrew:** Yeah, I agree with all of that. I would start with the book that they've recommended first, if you're further down along the path.

Some books that kind of jumped out to me that helped me learn, like Joel Greenblatt helped me learn earnings. No Joel Green, but helped me learn return on capital. OAuth Dodo, his little book evaluation that's helped learn. Just kind of cash flow Vital. Vitali, Katz and Nelson, we've had him on the show a couple times.

His little book of Sideways Markets helped me learn valuation. And also Robert Hagstrom has a book, the Warren Buffet Way. That one helped me learn about owners earnings. So you can see there's like a lot of different books along that path. If you're more advanced, maybe some of

[00:25:37] **Dave:** those might be helpful.

Yep. Yep. Exactly. I, I think the last, I guess, resource that I would throw out there is Twitter. There are some people on Twitter that really try to focus on the. Of accounting and the basics of understanding how companies work and things. The Brian Feral and Brian Stale, for example, and Brian Withers, all the three Brian's.

We've had Brian on our show multiple times and. They're, they're a great resource. They have a lot of great Twitter threads that are free, that you can learn. They kind of help explain the overview of the income statement, for example. And those are, those are great resources, especially if you're a visual person because they show they have different diagrams and everything that they kind of explain the different line items in the income statement, for example.

And they, that could be very helpful as well.

[00:26:24] **Andrew:** Dave, you do it pretty well on Twitter too. For the podcast, Twitter. Maybe people can reach out and who knows, they might get a response from you too. Oh

[00:26:34] **Dave:** yeah, for sure. Yeah, I'd probably really hard to, to respond to people.

So if anybody has any questions and they wanna reach out to me there, by all means, feel free. The dms are open, as they say. The handle. The handle. If B podcast, perfect.

All right, well, with that we will go ahead and wrap up our conversation for today. I would be remiss if I did not mention that we have a survey going on right now through our podcast platform. And there will be a link in the show notes that you could reach out and fill out. A survey takes about five minutes or so.

It's very interesting. It just helps us get a better sense of who's listening to us, what you guys like, what you guys don't like, and how we can make the show better. And so if you wanna help improve the show, Please give the survey a chance that you'll also be entered in a raffle to win a $500 gift card from Amazon as well.

So that's pretty cool. Also, if you have any questions about anything that we talked about today and you're not sure about what is the income statement thing that they're talking about, go to our website e investing for beginners.com. There's a huge search bar at the top of the page. You can. All you want to know about accounting from our website.

If you want, we have written 1100 articles to date and not all of 'em about accounting, but a lot are. And so if you wanna learn about anything that's related to accounting, we have an article there to help you get better at investing. So that'll be a big help for you. So with any further ado, I'll 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 and we'll talk to y'all next week. I.