IFB276: Day Zero As An Investor

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Dave

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All right, folks, welcome to Investing for Beginners Podcast. Today we have episode 276. Today we're going to talk about Day Zero as an investor. So this is going to be a little bit of a take off from Jeff Bezos, who likes to talk about day one as every day for the business. So we thought we would talk about Day Zero as an investor, like, where, where do you start?

If you are brand new to this whole investing game? Where do you start? And I guess, Andrew, you were talking about maybe some categorizations, that we could maybe help people kind of feel like, okay, I fit into this bucket. So maybe we could kind of first start talking about those. And then we can go into each bucket and talk a little bit

Andrew

0:41

about that. It is amazing how long we've been doing this, how different people are and how different people actually want to invest. So that's why there's no one size fits all, when it comes to this, I kind of see as like, you've probably fit somewhere in the spectrum. But the spectrum basically is, you want the easy button, you're an optimizer light, or you're an optimizer heavy.

So do you want to start with the easy button, what's the easiest thing somebody could do, and then just turn us off forever and live their life,

Dave

1:09

the easiest way that they could start investing, which is critically important to their future lives, is to start their 401 K at work, that is the easiest button there is the push, there is not much that needs to be done, it can be done, it can be automated. And you can literally do it and not pay attention to what's going on in the market for years decades. And turn out with a nice chunk of change when you are done working.

So that's probably the easiest button there is 401k is super, super simple, your employer can set up a match, most companies have a match, that's free money, we've talked about that multiple times, then you also have the idea of you can set it and forget it. In essence, you can set your allocations, the company will take the money out of your paycheck before you even see it. And they won't invest it for you in the 401k.

And it'll be done on an automatic basis, weekly, monthly, however you decide you want to done and set it and forget it if you will. And it doesn't take a lot of effort. You don't have to spend your nights and weekends. Reading 10 Ks, that's something you want to do. That is definitely the easy button for investing.

Andrew

2:22

Just make sure you're doing that you're setting it up. So that's not too hard, should not take too much time. And then make sure you actually are forgetting it. Because once you start messing within you don't know what's going on.

That's where it can blow up in your face. But you want the easy button. That's it, do the 401k Leave it alone. And you will be I think miles ahead of a lot of people who don't do that. Yeah, exactly. And

Dave

2:43

I think one of the things that I want to throw out there about the 401k. And any of these different buckets that we talked about, you can do all of them at the same time, if you want to, that's the beauty of investing is you don't have to just pick one thing.

And then that's all you that's the only flavor you get for the rest of your life, you can start with a 401k and build a base. And then you can go to the optimizer heavy if you want. And so you can start with easy button, I think that's the best place for everybody to start, especially if you work for a company that offers a man because it's easy money, it's free money. And it's an easy way to get started and dip your toes into investing without having to do a lot of work. And without a lot of stress.

Andrew

3:23

Perfect. So I guess maybe there are people who want to move past that maybe want to be like, a little more involved, and basically trying to relax, have a better word optimize their finances a little bit better, because the government does offer different tax benefits that you can take advantage of. But you do have to kind of get your hands dirty, and start learning some of the jargon.

So I kind of see that as optimizer light, where the benefit is you could have hundreds of 1000s of dollars more over a lifetime by taking advantage of a few other good options. But that does start to get jargony that does start to get into this can lead you down the rabbit hole. That is some people do definitely do get themselves with that. But is that I think worth considering if you are starting as an investor. And that would be you know, what are some of the options that the government offers as far as different accounts. And that's probably the next logical step.

Dave

4:23

Yeah, I guess let's double click on those. So what would be a couple of the accounts that people would want to optimize light to get started with her investing what would be a couple accounts that they could open and we can kind of go from there,

Andrew

4:37

my gateway drug, I try to get people that go down and this is a Roth IRA. And that's because we have to understand that the government's gonna take taxes out of your investments in one way or the other. The Roth IRA helps shield you from a layer of those taxes. And it basically lets you trade in and out of stocks without having to pay taxes. As you do so ever, so you get taxed on the front end, and then on the back end, you get to live tax free in that account.

So I'm the type of person I think a lot of investors are, because that's base investing is deferring gratification for later. So I feel like if you're an investor, you feel that way. And the Roth is a great way to take advantage of that, because you are taking the tax hit now, and then not getting taxed later, the definition of delayed gratification.

So if you run compound interest calculators, you can see this can really add up over time. What else is nice about the Roth IRA is it's something you can do, if you're in one of those cases where you know, maybe you're working and you're not on the books or whatever the you know, you just work somewhere, this, the standard 401k might not be an option, the Roth IRA is something that anybody can open, you don't have to open it with your employer, you can go right now and open an account with fidelity and be able to take that with you without having to deal with HR people. So that's a nice benefit, then you can also graduate into optimizer heavy very easily, because you can buy a myriad of options inside a Roth IRA.

Dave

6:15

Yeah, exactly. It's super easy to open, you don't need lots of information, and they can be a great tax vehicle to really get you started. And I think those are what's I guess there's a traditional account as well, you want to talk about that for just a minute. I know, that's maybe not the gateway drug, but it is an option.

Andrew

6:35

Yeah, so it's, it's a very similar idea to the Roth IRA. It's just kind of the flit, where instead of paying for taxes, now you get to take the tax deduction now, and then you do have to pay the taxes at the end. But that's going to be when you retire. And by then hopefully have a big chunk of change, where it's not going to be so painful. So that's it's really just the mirror and just like the Roth, you can open it at Fidelity, you can open it with any broker, it's very quick and easy, you don't have to deal with HR.

And there are limits to these accounts, every year, you kind of have to do a different limit. So again, that's where having to do some of the legwork does come into play. And those limits change from year to year. So this is a little more evolved. There's a little more optimizer. If you follow my Roth IRA plan, the idea is to get you started 25, you have a million dollars by the end of it. So it can be very rewarding.

But at the same time it does To be frank, it it scares off a lot of people when you even use the word Roth, like, there's just this barrier with a lot of people. So I understand the easy button. But the optimizer light is something that's worth thinking about.

Dave

7:39

I totally agree. So now we understand the different accounts, I guess, what are the options for an optimizer light to invest in? Like, what kinds of things could they invest in, I would say

Andrew

7:49

the easiest is just an index fund, you want to talk about the index fund why people like it, and why it's so easy to do.

Dave

7:58

Sure. So index funds slash ETFs are a guess a collection of different stocks that match a particular index. So perfect example is the s&p 500. So that's a collection of 500 of the largest businesses in the United States, you could argue with the best businesses, the United States, and these are matched by the s&p 500. And there are indexes and ETFs. That track all of those movements of those companies that you can invest in without having to understand the nitty gritty of what Apple is doing versus what Google is doing versus what Netflix is doing what it is the list can go on and on for 500 companies, you don't have to know the intimate details of those companies, you just have to You're basically betting on the economy of the United States over a long period of time, we'll do well.

And if you look at the history of the United States, and the stock market, those two things kind of correlate. And so that's really what investing in an index fund or an ETF now, the I've said this before the world is your oyster, when it comes to these kinds of funds, because there are a million of them. And it the the opportunities and the menu choices have exploded over the last 10 years in particular. And so if you just want to get started and you want to be optimizer light, and not have a lot of worry, is really easy to just buy an s&p 500 fund or a whole total market fund, and just kind of go from there. But if you're one of those people that maybe you want to optimize, and you want to have more allocation, because the s&p 500 is a concentration of sorts of 500 businesses in the United States.

But let's say you really want to partake in, in economic growth in the rest of the world. You can look at funds that you can invest in outside of the United States emerging marketing funds or funds from Europe or funds from Asia or South America. There's just there's so many choices, but it's a great, easy way to get started.

And a lot of the brokerage accounts have those funds available. For you to invest in, and you can do the research on those platforms as well.

So you can learn more intimate details about the s&p 500 fund from Fidelity or from Vanguard or from Schwab. And you can learn what would be a best, I guess, the best investment for you and a lot of these pay dividends to which is another little perk as well. So I guess that's kind of my thought on the intro of those, what are your thoughts, I would

Andrew

10:24

say, there are some pitfalls to worry about when you first get started in this stuff. So we talked about how index funds are basically a bet, if you do like a broad index on, you're basically just investing in the market, they are a bet on the economy. But something that it's not as easy as just, I'm gonna buy this, and it's gonna go up forever.

And I never have to worry, the stock market is very noisy in the short term, it's very up and down like a roller coaster, it is not the easiest thing to be invested in, especially when you're just kind of slightly tape checking it out. And that's where our podcasts I think comes in, because we have a lot of episodes trying to explain the stock market. And you hear it when people are just maybe in the optimizer light stage. And I know because I've talked to them, like they start to freak out when the markets coming down. And then they panic, and they sell. And one of the biggest pitfalls, but also one of the biggest advantages to being an investor in the stock market, is you have to ride it out over the long term.

And that's so So, so key. And it's so easy for us to forget how simple yet how life changing that can really be. And I think when you start to understand, and you start to be like, I'm gonna, I'm gonna put some work in understanding why is the stock market gonna make me wealthy, if you can like internalize those lessons, then it will help you to be able to stay in the market when things are going crazy.

So you know, some of the basics about the stock market again, in the short term, it can go up and down, that's very volatile, you might see the market go up 10% or 20%, one year, and then it might go down 20% in year it's gone down was it go down. And during COVID It was something pretty big. I think it was like 30 35%

Dave

12:14

Yeah, 30 40%. Somewhere in that range, it was quite steep. So you

Andrew

12:18

will get these moments of panic in the market. And they are pretty common. It can happen every 510 years, something like that people who graduated in the 2000s. They remember, early 2000 2001 2002 It crashed and then it rebounded and then the crash then it rebounded that crashed. So this is how the market can be it can really like punch you while you're down and just keep punching you.

But just the way that the economy grows over the long term, so does the stock market. Devi mentioned this in one of the previous episodes, you look at the stock market and looks very choppy. But the more you zoom out on that chart, you start to see a line that goes up into the right. But if you really look at just a six month or a year period, it's very bumpy over that time. So if you are going to be and this applies for 401k, because a 401k is most of the time invested in the stock market.

Or if you're buying an index fund, because you want something that's pretty easy, you don't have to get into the whole stock market thing, you still need to realize you are in the stock market, and it will go up or down. So when you log into your fidelity account, you log into your IRA account. And you see that, why is my money less when I put money into it, it's because the stock market. This is how it operates. And that's just the reality of it. But over the long term as businesses in the economy grow. So there's a stock market, and so will your investments. But if you're trying to trade in and out, you will get burned. That's why you have to stay in the long term and not set it and forget it part really becomes critical.

Dave

13:58

It really does. And I think that's really the strength of something you can learn from investing in a 401k. And using index funds is the idea of dollar cost averaging. And continually putting money into the market on a regular basis over the long period will benefit you. And that's one of the ideas. The strengths behind a 401k for example is if you put it on automatic and it's just part of your routine, you may know that the market is going up and down. But if you're continually putting money into it, you won't really notice but then when you look back at your returns, you're like, Oh my goodness.

And that's a large part because most people run for the hills when the market goes down. But that's actually the time that you make the majority of your monies because you're buying things on sale. And if it's a good business, if it's a good investment, when it's doing well in the market price wise and when it's not doing well in a market price wise but the underlying business or the index is still outperforming well, then if you buy it for less, and then it goes back up, that means you own more of it. And that's really the whole idea behind the stock market is the idea is to try to buy low and sell high, very easy to say, really hard to do.

And one of the things that you can really help yourself with the easy button and with the optimizer light is setting up a automatic program that will put money into your account on a regular basis. And it's just a bill that you pay that you don't have to think about, it automatically comes out like your cell phone bill, for example. And if you set yourself up to do that, you're going to be successful for a very, very long time. And kind of to Andrew's point, where the ups and downs, you're going to see those. But if you have this kind of plan in organization in methods set up, that will help you ride those out. And you'll do great over a long period of time. And that's one of the advantages that you can have, by understanding a little bit of the ins and outs of the market and understand that there are going to be times when it's going to go down. And there's gonna be times when it goes up. But over the long period, it's going to go up and to the right. And by dollar cost averaging, you can set yourself ahead of a lot of investors just by doing that one simple thing.

Andrew

16:10

Yeah, that's beautiful. Actually, I think we've rewired our brains to be so different from how most investors feel. And that's like most investors feel bad when they see the market going down. But if you can set up something like dollar cost averaging that completely shifts your mindset from instead of feeling bad that your money's down now that you're able to buy more now, and that's going to set your future up even better. And that can be so so powerful. And like you say, giving you that staying power. Yeah, exactly.

Dave

16:40

And, and there's nothing like giving you more encouragement and staying power, when you see that your investments are doing well, especially if you look at him. Once a year, you're going to see this improvement and you're going to be shocked by how much is actually in there like oh my goodness.

And it's that's the power of compounding that's the power of continually putting money in you know, no different. I love this quote by Buffett, you know, I love to buy my socks the way I like to buy my stocks when they're on sale. And that's we have to think about what the market you're gonna see ups and downs. But if you stay true to being consistent, you're going to do well for a really long period of time. All right, maybe we could move on to the optimizer heavy now. So this is the area that we've been spending the last six plus years talking about. Let's dive into that a little bit.

Andrew

17:24

Now, why would you want to be optimizer heavy? What's your answer? Oh, boy,

Dave

17:29

my answer is, I guess several answers. Number one, I love the idea of the stock market. And I love the idea of learning more about businesses and how they operate. And to me, it's endlessly fascinating.

And I feel like that over a long period of time, I can do well by buying companies that I think are going to be great businesses over a long period of time. And I just like the game, I think that's you know, to me, I think I can do well. And I like the game. And that's really what drives me what

Andrew

18:00

about you very, very similar. I almost see it as a prerequisite of if you're going to get into this stock pickers thing, this optimizer heavy thing, you should find satisfaction in that because if you don't, it's just going to feel like another job. And there are better jobs to make you more money in a shorter amount of time, this definitely playing the long game, the only thing I would add is, it doesn't take that much longer than to kind of do a compound interest calculator. So Andy talked about this a few episodes ago, where he put a lot of thought into how involved I want to be in this investing thing. I think it's a great example of when you figured out that I want to stay optimizer light. And I think that works for a lot of people.

Part of doing that is you can kind of look at how much am I investing now? And how long is it going to compound and am I is all about African to be worth it to me. And we're everywhere, that's gonna be a different answer. Because you're all gonna have different numbers. I think if you kind of approach it like that at the beginning, then maybe maybe that's another factor that think into a whole like, do I love this game kind of thing. Because it's a hard game and you're gonna be beat by people who love it, and who are financially incentivized to do it.

Like that's just kind of the that's the nature of it. So when I remember kind of some of the really fun parts of this journey of being the stock picker, I personally love the idea of interacting with the businesses that I own personally. Like, over the weekend, I was looking at cell phone towers, you know, like as I was on my drive, and that's a lot of fun. And you don't get that same level of attachment, I guess, or emotional, dopamine, for lack of better word. When you have a big index fun in my opinion, but again, you gotta have a love for the game.

You gotta find this stuff fascinating, you got to be willing to learn, and continuously learn and spend the time. But if you can, if your numbers line up, for one reason or the other, it can mean another 100,000 million dollars for you over the long term, it can mean really fun projects and jobs and friends you can make can be very rewarding, but it's something that I would not do half heartedly because I feel like it's like giving somebody a shotgun and being like, this thing can be really powerful, but it can also blow up in your face. So you got to be careful with it and actually be like, you know, I'm gonna be serious about this. Because you can lose a lot of money doing that, too. Yeah,

Dave

20:40

you can, you can, it is critically important to be serious about it, and understand that it's not something you can do with five minutes a day. And if this is the game that you want to play, then you have to spend the time to learn about the businesses and how they work and how they operate. And they understand the financials and the implications of those financials and everything that goes on into the future. And I think it's, there is a certain pride in using my Visa card, you know, when I pay for things, or, you know, Microsoft, when I go use Word to write articles for in, you know, there is a certain pride that you get from understanding that I own a piece of this business.

And when I use it, I'm, you know, I'm helping the cause, if you will, or when I go to Costco, and, you know, spend all that money on the on the groceries, that's part of the allure of it for me. But it's also not a game that you can necessarily play part time. And it's something that you need to be serious about. Because like Andrew said, you can lose a lot of money very quickly if you don't understand what you're getting into. And the risks.

And I think one thing that I always like to caution people when they're thinking about being an optimizer heavy kind of investor, is don't compare yourself to your neighbors, don't compare yourself to other people try to do the best that you can and have an inner scorecard that worries more about how well you do as opposed to the person across the street. Because unfortunately, luck and play a part in this, and somebody could hit it big and you know, gamble on something and it does awesome. And they do great. And next thing, you know, you see him driving around and Tesla's and buying a new home, you know, great for them, you know, bravo to them.

But understand that is just part of the part of the game. And sometimes it can, luck can happen. And you just have to roll with it and move on. It doesn't mean that you are a bad investor. And that person is a better investor, it could just mean that they got lucky with one company. And that will happen from time to time. And so you have to, I guess, align yourself mentally with you know, I have to do the best that I can do. These are the gifts that I was given, this is how I can do the best I can do. And just focus on that. And if you do, then you'll do well over over a long period of time. But, you know, stay in the game, keep doing what you're doing. And I guess really try to understand what it is you want to accomplish. And I think if you understand all those things, and really enjoy what learning about the ins and outs of Google, for example, then I think you'll end up being a great investor over a long period of time.

Andrew

23:06

The funny thing about the guy across the street, it's always a new guy. Yeah, every new market, it's a new guy. Always.

Dave

23:13

Yeah, that's totally true. That's totally true. You just never know what's going to happen or things are going to play out or whatnot. And people will be on top at one moment and down another what's the one thing about the market? Oh, humble you very quickly. You think yeah, I got this. This is easy. I got this game, you know, dialed in it. No, no, it's hard for a reason. And that's what makes a great.

Andrew

23:33

Yes. Very well said. Now, you've said something on previous episodes about, I feel like this is kind of a an idea borrowed from Charlie Munger. But spend the first hour of your day investing in yourself? If you do that, with understanding businesses in the stock market that can really go a long way as it compounds over time. What other resources or what would be the next place to go that you would recommend somebody who wants to be optimizer heavy? Who gets excited about the stock market and the possibilities? What would be the first place you would recommend for them? Well, the

Dave

24:09

first place I would recommend would be start reading financial reports, reading 10 ks and really understanding what it is the business does, and how they do what they do. And that's the resource that's going to get you the farthest in. I think one of the things that people under a mis understand or maybe don't quite understand is that you need to you need to read the source material to really understand what it is the Berkshire Hathaway is doing. And just because you want to read, I think some people will get overwhelmed when you look at some of the financial reports.

We start with JP Morgan, choose another company, please. 250 some pages later. You're gonna hate yourself but start with something easy something like Apple or Walmart or a company like that. Obviously pick a passion, something you're excited to learn about, and follow that. But take it one Take a piece like a pizza, eat it, you know, piece at a time, something that I did, when I first got into this was I would read start reading the financial report in the morning like I would on my commute, when I get to work, I would usually early. So start reading the business section.

Then at lunchtime, I would read more the business section and maybe the risks. And maybe at night, I would read other parts of financial report. And so I would just kind of work my way through it methodically, you don't have to sit and read, like Charlie Munger does 510 hours a day because we don't all have that luxury. And so if you are working a nine to five job, have a family and all those things, there's time in your day to figure that out if that's something that's important to you, and you can just kind of go from there. But for me, I would look at the source material, whether it's a 10k, the 10, Q's, company proxies, any of those kinds of things are, for me, that's where I would start, what about you,

Andrew

25:48

I would do all of that. I will also check out some books, which we've talked about, I would start with being the St. Peter Lynch and the Intelligent Investor, by Benjamin Graham, annual reports can be a lot financial statements can be a lot, you can just look at our archives. And we kind of hold your hand on how to do that. So the information is there, the resources are there, you can do it. But it does take rolling up your sleeves. But if I've lived there anything I've found that's been very rewarding.

Dave

26:17

For me, too. Yep, we do. It stays zero, you can choose what it is that you want to do. When you want to start investing, it's just up to you to decide what kind of investor you want to be. And then follow that path. And you know, the power of the market will be there for you whether you choose to be easy button or optimizer heavy, it doesn't matter. Anything in between you can you can get where you want to go. So we

Andrew

26:38

hope you found that useful. If you're Day Zero as an investor, or maybe you're not Day Zero, maybe you know somebody who's Day Zero as an investor, please share this episode with them. We want to see as many people succeed in the market and figure out what works for them. I hate to hear about horror stories in the stock market. And I think the stock market just gets a bad name from people are just maybe a little misinformed. So share this with that person who pops in your head when you think of day zero as an investor. And hopefully if there's enough people who find their way, then you and I will be out of the job. But you know, maybe the economy will be so much better. Nobody will need the job.

Dave

27:17

Right, exactly. That would be great, wouldn't it? Alright, well with that we will go ahead and wrap up our conversation for today. Thank you guys for listening. We hope you enjoyed our conversation. And without 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.