IFB291: Overcoming Beginning Investor Skepticism

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Dave

0:00

All right, folks, welcome to Investing for Beginners Podcast. Today we have episode 291. Today we're going to talk about some beginner questions that beginners from a skeptical point of view may think about when they're started investing. So Andrew recently had a great conversation with someone that was a beginner investor. And they were asking him some questions that he thought were really interesting that we could share with you kind of the viewpoint of maybe his skepticism or barriers that may hold people back from starting to invest. So with that, Andrew, I will go ahead and turn it over to you and the floor is yours, sir.

Andrew

0:37

All right, well, let's have a little conversation, hopefully, maybe somebody who's been interested in the market, but overwhelmed could find this to be helpful for them and kind of overcome that barrier, like you said. So one of the things that I think really draws people I know, I like the idea of is this idea of passive income. And I know it's like, thrown around on tick tock a lot. And I know because this person I was talking to, admitted that I think everybody would want passive income.

But I don't think a lot of people think about the stock market necessarily as being passive income. But it totally can be if you get the right education and the right knowledge, and then apply the right principles to it. So I guess the first thing when it comes to the stock market is it can feel like this abstract concept. So how to even make money from the stock market? That's actually not intuitive if you've never done it, or study that. So how would you answer that question? How can you even make money from the stock market?

Dave

1:38

Well, yeah, it's not intuitive. So the way that you make money from the stock market is, there's, I guess, in essence, two ways that you make money from the stock market. One is from the stock appreciation, or the price going up from the price that you paid for it. So if you make if you buy a company for $10, and it goes up to $20, you have now made $10. And so that's how you make the majority of people make money from the stock market. The other way you can make money is from what's called dividend. And that's where the company pays you, ash from the money that they own based on the amount of shares that you own.

So let's say that this company that we bought for $10 also pays us a annual dividend of $1. So now, the stock goes up $20, but they also pay us $1 in dividends. So now instead of $10, we've made $11. And that money, all compounds on itself, the longer that you hold a stock. So if you hold it for five days, then you're gonna make 10 bucks and $1, for example, but if you hold it for 20 years, you could make depending on how many shares that you bought, and how much the stock price appreciates, you could make millions. And that's how the majority of people that make lots of money in the stock market do it is by the combination of stock appreciation, dividends, and all that compounding on itself, like a snowball rolling down the hill. And that's how you make vast amount of money in the stock market.

Andrew

3:14

So this is something he kind of brought up to is like, why would a stock even move? It couldn't seem like, it's just this place where a bunch of Wall Street types are typing away on a keyboard and making price moves up and down just with no reason. So what makes the stock go from 10 to 20 to 30? And how can somebody even think to predict that, especially as just a regular everyday person? All right, well,

Dave

3:44

I guess the first thing is a stock market is a collection of buyers and sellers. And on one side you have people buying a company, and another side you have people selling the company. And as demand kind of goes up and down, the stock price will get bid up. So every time if somebody gets excited about Microsoft, for example, and it's selling for $50. And then somebody across the street thinks that hey, this was great, but I'm I want it but I will pay $5 more. So now it gets bid up.

That person buys it for $55. And I've sold it to them for 50. So I made a $5 profit and now they've now they own the shares at $55. And let's say that they find somebody else to buy it from them at 65 and it just keeps bouncing back and forth. And the price gets bid up and up and up and up. Anybody that was around the stock market at all during the whole Gamestop extravaganza that's exactly what happened is people on both sides were buying and selling and it just kept bidding up the price because of the enthusiasm.

Now that is more of a short term focus or a short term idea of how the stock market works. In reality what is going on is people are analyzed During the business performance of the company, so EA Sports, for example, when you invest in EA Sports, you're buying a piece of that company, and the financial performance of that company. If they generate more revenues and generate more profits, then people think that that's more valuable, it comes back to the value of the company. And you think about iPhones or Air Jordans, those intrinsically don't change that much each year. But the company sells it for more, and people think it's valuable.

And so they're willing to pay 1500 hours for an iPhone, whereas two years ago, they're willing to pay $1,200, this same exact rule applies in the stock market, everybody thinks Apple is worth $100 a share, they will willingly pay it, even though it may be trading at 80. Because they anticipate that the company will do well. And some of this is a guessing game to be blunt, because nobody can see into the future. And nobody knows exactly what's going to happen with Apple or any company. Those are projections based on knowledge and history and forecasts and just general business sense. But it all goes back to you're buying a piece of a business. It's not an actual ticker, it's I own Apple, Tim Cook. And I mean, we own apple. But it's also how the stock market works as a two sided market where people are buying and selling. And that causes the prices to move up or down, depending on the mood of the market. And,

Andrew

6:32

you know, going down to the basics like this can kind of actually get some nuggets from it. Because if you think about Yes, a lot of it is people anticipating what the business will do. But if you're in a situation where nobody wants to own stocks, we're talking about bear markets, where there's recessions, and people just don't even want to hear the word stocks, you can still make money on those companies. Because if you remember what they've said, there's two parts of this equation, you have the stock price going up, which is everybody's expectations, but then you also have the dividends. So in a sense, Apple, people could hate apple stock for whatever reason.

But as long as they have those profits there and you have those dividends there, you know, there's always going to be a some sort of a floor on the stock price. Because if I give you $100, and you give me $100 in dividends, by the way, I'll take that all day long. And I know a bunch of people around me with too. So it will never probably go to that extreme. But to the sense that you're getting closer and closer to that reality. There is that floor on the stock, where people are going to buy even if the future looks super, super bleak, because you have that earning power in that dividend power that's there today.

And so that I think gives, it helps me actually like I feel a little bit better. Now if I see a stock that's down because it's like, you know what, there is a floor there is that margin of safety, that this is a company that's profitable, I can look around, and I can see people still are on their iPhones, people are still at the Verizon store upgrading. So you can see those things and they can help you power through a really tough time when the market is screaming, get out and stocks are crashing, there should be comfort there if you understand that the earning power gives you that base and that margin of safety. So I guess the next thing, and this is something, you know, you talked about owning for 20 years.

And I was talking to this gentleman, and he's younger, younger than me. And I totally get it right. But he says, you know me and Dave, we've been talking about this for years. So you could probably even imagine what I said to him, and you probably will get it. But you know, his feedback was it takes too long, you know, 20 years. So what's your response to the takes too long to do this stuff with the stock market? Well,

Dave

8:54

I think the there's several things that I guess kind of springs to mind, first of all, of all the richest people in the world. All of them own a business or businesses. They're either in the stock market buying businesses or they've created their own business that generates wealth for them through the stock market. And none of them are overnight sensations. None of them get rich, fast. The stock market is not You're not going to get rich fast in the stock market. And there are occasionally people that hit a big the flash in the pans or the one offs that get really lucky and bet huge on something and make a lot of money and walk away.

But those are far more the exception than the rules. And you know, if you want to make money really fast, and you're gonna have to create your own business, you're gonna have to create your own business, you're gonna have to work really, really, really hard to generate those profits and become, you know, this overnight sensation that you make lots and lots of money overnight. Mr. Beast, you know, the gentleman that runs YouTube. He's the younger guy, and he's the most Popular, I believe he's still the most popular YouTuber around, he makes a lot of money. But he works his butt off. He's not sitting on his couch playing, you know, Xbox for 12 hours a day, he works his butt off. And he's got a team with him. And it's a lot of effort and a lot of thought and a lot of work.

And he's good at it, obviously, because people love what he does. But it's not overnight. And I think that younger people who my generation, when we were younger, were probably the same. But I think that's just natural. But if you can kind of break through that mindset of like, the stock market is like a casino. And if you treat it that way, you're gonna get slammed, you know, just like going to just like go into Caesars in Vegas and putting all your money on, you know, black 21, you may hit a big once or twice, but chances are the house is going to win. And the stock market is going to be the same kind of thing. If you bet big.

Yeah, you could have a chance of winning big more likely than not, you won't. And so I guess it comes back to the best way to make money without having to either have to start your own business, or you can invest in the stock market and the stock market. If you buy the great businesses, you don't have to do anything. I mean, they're the ones doing all the hard work, you know, the guys run an apple that people run in Microsoft that people run in Texas Instruments, or visa, they're the ones doing all the heavy lifting, all we have to do is just go Yeah, I want to buy the that ticker and put my money in a brokerage account.

And I'm done. And that's it, you know, and then they do all the heavy lifting. And to me, that's like the perfect kind of passive income. And the other choice is to start a side hustle and work 40 hours a week plus the 40 hours a week, you're already working to try to become the next Mr. Beast. And that may not happen. So I guess that's the I guess that's my thought.

Andrew

11:51

Yeah, that's it's a really good one. How? Yeah, I appreciate that. There's no easy answer to that. And, you know, I think, naturally, people want instant gratification. And that's just not the reality for the vast majority of outcomes for people.

Dave

12:07

No, not at all. And I think I understand, you know, that it seems too slow, and it takes too long. And I get all that. And, you know, our culture, our generate in our culture and our generation, our culture. And our, the way we do things is become very instant, you know, we don't want everything now, and we don't want to have to work for it. But almost nothing in life comes easy, and nothing comes quickly. And it all takes you know, a certain level of time to grow up and to decide what you want to do.

And then you know, find a job or earn money and then try to become wealthy. And if you've got the great next great business idea, and you are all about that, then that's awesome. But I think you know, for the vast majority of people, it doesn't fit into their life, they have kids, you know, they're married, they have, you know, a great job that they really love. And it's doing great things for their community and for the people. And giving that up would be detrimental for them and for the community.

But investing in index funds and putting $200 in an index fund every month from now until they retire, they're going to generate, you know, upwards of anywhere from you know, 800,000 to a couple million, depending on the returns. And when they start doing that. And that's all doing literally nothing but just transferring money. I mean, that's, that's great to me.

Andrew

13:29

It's it's one of the one of the life hacks that you could do. And so let's talk about that a little bit. Because there is a difference between buying the stock and having to pick because there's so many companies you have to pick. But if you really want to make it as passive as you're just literally transferring money. That's something you can do so give us like a brief overview of index funds. And if people want to dive deep down there, what should they check out.

Dave

13:53

So index funds for those who aren't familiar with this term ETFs index funds, they basically are set up to match an index. The most common example of that is something like the s&p 500 or the Dow, which the stock market which most people associate with the stock market, you can buy index funds, which match the performance of those particular indexes. So you can buy a fund an index fund, like SP y is the one most commonly thrown around that one matches the s&p 500. so it matches the performance up or down of that, then you can easily buy that at any brokerage account. And you can fidelity Schwab, for example, are free.

And so it doesn't cost you anything to open an account. You transfer the money into the account and you can set up you can set up to buy that particular ticker every month, you can automate it to as much as you can to make it as painless as you can. It's, it's in essence, the same kind of thing that you're doing with a

401k It's It's automating it and it's transferring the money. But if you do that on On a monthly basis, you're going to, you're going to generate fantastic returns the, just an FYI, the stock market over the last 100 years, has returned between nine to 10%.

Over those last periods, if you look, the stock market, if you look in short periods of time, you're gonna see this roller coaster, you're gonna think, Oh, my God, I can not invest in this, that's too much. But if you zoom back and look at longer stretches of periods of time, even if you go back to 2000, to today, we've had some pretty serious drops, you know, in 2002 1000 789. And even during the pandemic, we've had some pretty serious jobs. But if you look at all goes from the bottom left to the top, right, it's just, you know, it's nice, smooth line, or smoother line.

Andrew

15:44

But if you zoom into those shorter periods, you're gonna see a lot of variability, and that can scare people. But I digress. It's a great point about the history of the stock market, the returns, I'm just gonna say, unless you're a finance person, nine to 10% a year does not sound exciting at all. And I don't even see how that can make you wealthy. But it can. So please explain how that's even possible?

Dave

16:06

Well, it's all about compounding. And it all goes back to the miracle of compounding. So basically, what it does is every year, it builds on itself, and it becomes like this snowball. And so if you look at Warren Buffett, most famous investor, amazing, amazing, you know, a track record, he's generated returns for himself in a 20% range. And he's a vast majority of his wealth after he was 50 years old. So he started investing early. And I'm not saying this to discourage people, but I want to show you the power of compounding. And I don't remember the exact numbers, but it's kind of in his ballpark. So when he was 50, he was worth maybe two or 3 billion.

By the time he was 60, he was worth around 15 or 20 billion. And by the time he was 70, it was double that. And by the time he is now I think he's worth 170 $580 billion. He's like, not not the richest man in the world, but he's in the top five. And it's all been after he was 50. And it's all because of the power of compounding continually putting money into the stock market, not taking it out, not using it to go buy, you know, your favorite, you know, gumball machine or you know, a car, but it's keeping that money in the stock market and letting it work and work the power of compounding. If you want to have fun, go to find any sort of compounding calculator on a website and just start plugging numbers in like $100 a month at a 9% return over the next 30 years. And, and that's just adding $100 a month.

That's all you're adding. And just look and see what kind of returns you can get over that period of time, like a rocket. Yeah, it's just ridiculous. And so Albert Einstein is credited with saying that compound interest is one of the the eighth wonder of the world. And it's a power that's not explained enough. And that is how you make, like, yeah, nine, or 10% Doesn't sound like what they do. But over a longer period of time, if you continue to put money in there, it's going to be a huge, huge number.

Andrew

18:13

Yeah, I mean, you think about 10% of $100 is like 10 bucks, right? What 10% of 100,000 is $10,000. And you can eventually get from A to B. And once you get to B, then it starts to really, now you're talking about big, big numbers. And then to your point with Buffett starts to double, triple. And when when those are small numbers, you turn 100 to 200. It's like I don't care, but you turn 100,000 To 200,000 to 40,000. That rocks, a lot of freedom for yourself, for people around you for the causes you care about that can I mean that can be a lot, but it does take worthwhile things take worthwhile effort, right? So there's no way to get around that.

But what's, at least for me, so encouraging is that literally anybody can do this. And there's, I mean, it used to be a lot harder to get information about this. But now it's listening to the podcast for free and discover the wonders of the world. Right? And that really is what it is. And so I hope that people they look at like an iPhone or whatever product that they like to use and realize that there's a stock behind it and then realize that you can make nine to 10% a year maybe not in necessarily like a video game stock or a Netflix stock or anything but maybe just the entire stock market. And that's completely passive. That is huge. It's a game changer. And I wish more people would would figure it out and I wish I started earlier.

Yeah, yeah, amen. Amen. So I guess his lot Oh, go ahead. Go. Oh, I guess his last A hurdle and maybe we can close here is just how do you do it? Because that can this gentleman particular from a different countries, maybe it's different there. But if you're in the United States, like, I gotta wait till I save $10,000, or what's the process here?

Dave

20:15

Yeah. So the beauty of Today, technology, the knowledge that we have, we have so many tools and resources available to us now, that can eliminate a lot of these barriers. So perfect example is you can open a brokerage account, or pretty much anywhere a brokerage account, for those unfamiliar is the account you would use to buy and sell any sort of investments, whether it's stocks, bonds, anything, you can open one of those on your phone in five minutes, it's super, super easy. And you link it to your checking account, or your savings account, and you transfer a lot of money in and voila, you're ready to rock. And it's you can start the best place to start is you can start with any dollar roughly any dollar amount you want.

There is a misconception that you have to have lots of money to start investing you don't, you can literally start with $5, you might even be able to start with less than that, depending on what kind of my sister in law was talking about the acorns app the other day, and I think they use change from your transactions to start investing. So he if what we're talking about is too scary, that's an option for you. So and that can get you started today. But if you want to go the more air cooled traditional route, and use a brokerage like Schwab or fidelity, which were the two that Andrew and I like a lot, they, you can start trading for $5, you can buy Google tomorrow for five bucks. And so the dollar amount is not important, the really important part is getting started. And so there are several things that you need to do.

Number one, is you need to open an account and transfer money into the account. And those are, that's something you can do very quickly and very easily. And why you're waiting for that money to transfer because it can typically take a few days for that to transfer as a new account, you can go to our website investing for beginners.com. And you can start learning you can we have a Start Here button, you can start learning about the stock market, even if you are not going to buy individual stocks, you have to kind of understand the basics of what the stock market is, how it works, and understand what it is you're buying.

So that you aren't kind of freaking out because you're gonna see volatility and just there's no pretty way or easy way to say this, you are gonna see your stock go up, you're gonna see it go down, that's natural, that's part of the game that's part of the gig, and just deal with it. But over time, it will go up and to the right, you just have to give it time. And a lot of things go into the ups and downs and machinations that's not important for you to understand at this point.

The point is, is that you can find online, you can you know, the Google machine is a beautiful thing, you can find recommendations of what kinds of ETFs you should start investing in today. And you can literally buy them today. If you want to be a stock picker, you can do that too. You can find a company that you can buy Microsoft a visa, Starbucks, Netflix, Shopify, Spotify me that's just on on. But the most important part is buy something, open an account, today, fund it, and then buy something by, you know, Tuesday of next week, do it jump into the water, it's warm, it's not too deep. No sharks, I promise. And just start and buy something. Even if it's only five bucks or 10 bucks, that's okay, it gets you started, get you in the game. And then you have more time to learn. And then you can just build from there.

But there's nothing wrong with starting with baby steps and moving up there. You don't have to start with a million bucks, you don't have to start with 100 bucks, you can start with, you know the same amount of money you would spend on a Starbucks coffee, you know, for your Tuesday. So that's my suggestion.

Andrew

24:02

Yeah. And I hope people take it to heart. Me too. When I look back when I was a beginner. And you know, that comment about wishing I started earlier. I don't know how long it would have taken me to stumble upon this. But I was fortunate enough to have somebody in my work, who was passionate about this stuff, and would talk to me about it. And so if there are people out there, maybe you're thinking of somebody, this might be a good episode for them because I think everybody has their skepticisms. But we had talked before with Andy and a couple of other buddies is like,

Yeah, somebody actually presented this to me, I wasn't me seeking this out. Somebody presented this to me. And I think that's one of the things if, as the culture of the finance community can maybe be more like that and not doing it throwing out these crazy financial terms, but just like look, these are, this is how you can do and this is A potential, we could we could see a lot more people being investors than we had, let's say 20 years ago.

Dave

25:06

Yeah, totally, that would be a beautiful thing. I mean, if nothing else, you know, this is what we've been working for all these years is to try to encourage people to start investing and start, start building their financial freedom, because this is how you do it is by starting to invest. And you could do it in stock market, you could do it in real estate. It doesn't matter. I prefer stocks, but other people may prefer real estate, but it doesn't, you know, just get started. But the bottom line is Start. Start today. Don't wait. Don't procrastinate. Don't think I don't know enough.

None of us do. Do I know as much as Warren Buffett go away. But it doesn't mean that I can't start and I can't learn and I can't you know, progress as you're going along. And everyone listening to us can do the exact same thing? For sure. 100%. All right. Well, with that, we will go ahead and wrap up our show for this week. Don't forget to subscribe to the show on your preferred podcast app if you enjoyed our little show. If you would kindly consider giving us a review. It greatly helps the show.

And don't forget to browse the incredible materials we've created for you at E investing for beginners.com. Last week, continue growing your knowledge as an investing for beginners insider with insights and educational tips delivered right to your inbox for free sign up today. And with that, we will go ahead and wrap us up you guys go out there and invest with a margin of safety emphasis on safety. Have a great week and we'll talk to you all next week.