IFB297: Listener Q&A – Is It Ever Too Late to Start Investing?

[This transcript was generated by artificial intelligence. Timestamps are not 100% accurate depending on the platform used for listening].

Dave

0:00

All right, folks, welcome to Investing for Beginners Podcast. Today we have episode 297. Today we are going to answer four great listener questions we got from Spotify. Spotify allows you to ask us questions, and we can answer them. So here we're going to go away answer those questions. So I'm going to read the first one without any further ado. So hello, I started investing early 2020. My 60 year old mom asked me about investing because someone at work told her about it. Is it worth getting a Roth IRA and investing in ETS for her or is it too late? So Andrew, what are your thoughts on this very intriguing question,

Andrew

0:35

I guess we could start just if you're beginner, you don't know what a Roth IRA is an IRA is an account you can open. That gives you tax benefits. So when you invest money, you have to pay taxes, when you make money from your investments. Roth IRA gives you a tax shield. And it's one of those accounts we recommend people use, in addition to a 401k, which is also another investing tax shielded account. I'd say it's not too late, whether you say

Dave

1:06

I'd say it's not too late at all, I think it's never too late to start investing. I was talking to somebody on Twitter earlier today. And they were kind of asking something along the same lines. And you know, the best time to start was 10 years ago, the second best time is today. There's no reason why they can't start today. And I guess maybe we can expand on this a little bit. So I guess my thought is, if you're six years old, and you start investing today, even if you retire at 68, or 69, for example, just as a hypothetical, that's eight years that you can put money away that you can use any retirement, plus the fact that we are living longer than we used to. And so, you know, God willing, your mama lived 8590 9500, who knows, you know, and so that's another four years of potentially, you know, having money that they can access. And so that's why I think it's never too late to start.

And you know, I think using ETFs, if you're not familiar with individual stocks, and is a great way to go. It's just it's perfect, it's easy. And you can find a lot of great investment choices, and it can really help you out. I guess that's one of my thoughts on what are your thoughts?

Andrew

2:15

I feel like there's just a certain satisfaction with knowing you can put your head on the pillow at night. And you can know, I did something today where I took money I could have wasted and not had any of it tomorrow, can I actually put that to work for myself. And that doesn't change whether you're 10 years old, 50 years old, or 80 years old, you still had the discipline to save, and put that money to work for you. And over time that creates wealth. And I think there's a there's a big satisfaction in that.

Dave

2:48

Yeah, there for sure is I agree with that 100%. One other thing I guess I wanted to kind of throw out there too, is if if your mom decided to use a traditional that a traditional IRA, which is another accident Vantage retirement account, one of the speed bumps you could run into with that is that when you turn I think it's 78 and a half, there are what's called RMDs required minimum distributions. And so depending on how much money your mom was able to save up from in that time period, she would have to start taking that money out with with a Roth there isn't that requirement. And so you could keep the money in there longer for either for herself or for her kids or, or husband, whatever. There's some advantages to using the Roth as opposed to traditional and so just throw that little log on the fire, if you will.

Andrew

3:35

So you're saying there's when you say RMD? At a certain point, you have to stop contributing to it, you have to start taking out? Yes. So I guess if that I don't know what the exact number is, and I think that can change over time, depending on what year we're talking about. But let's say you have like a six year or seven year time horizon, is that the investment mix, maybe change? And maybe instead of like a stocks ETF, it's a bond CTF or some sort of a mix.

Dave

4:06

Yeah, I definitely would probably encourage that as you get closer to retirement, kind of switching the the allocation, if you will, from less risky stocks, if you're using ETFs. There's still risk involved. And so if they're picking stocks, so if it's matching, let's say the s&p 500, for example, there is risk in investing in that let's do use a hypothetical, if you were about ready to retire and COVID happened, and the market shut down for six months. Kind of like what happened. You see your value of your portfolio dropped like a rock. And now it'd be a really hard time to go through or we went through the great financial crisis or even the.com bubble. It could take several years for your portfolio to recover. And that could put a lot of hardship on people and so a way to mitigate that risk would be to diversify into more, I guess safe and secure kinds of investments bond ETFs money market funds ans maybe even some life insurance or health do different kinds of things like that. And those are a little bit outside of my circle of competence, if you will. So if that's something that you're really interested in, it'd be worthwhile to talk to a professional to give you some guidance on what's the best way to kind of set up your portfolio. As you get closer to retirement.

Andrew

5:19

I also kind of focused on that 20 year time horizon with stocks, I do know there are some good bond ETFs. And those might be worth investigating. So a good stock ETF that everybody knows is ticker SP y, s&p 500. They have a total bond market ETF, this is Vanguard, that's ticker B, and D. And so the reason why bonds are typically more safe than stocks is because when you're owning stocks or owning a piece of a business, and people have different opinions on whether business is worth a lot, when you buy a bond, you're buying a loan that investors have loaned to big companies or a government. So that money's coming back. And so the prices of bond ETFs tend to be a lot more stable most of the time.

Dave

6:13

Like everything in finance, it can depend.

Andrew

6:16

But in general, you're right that if you're closer to retirement, you might not be able to have the time or the luxury to wait for the market to recover if people freak out. And so a bond fund would be better in that case, you can still make great returns on the bond fund. I mean, you might not get stock market returns that can like really multiply your money, but you can still over time, have nice increases in your wealth.

Dave

6:42

Right? Yep, exactly. Yep. That's a good good advice. All right. So moving on to the next question. We have a what are some safe ways to invest? For people like me, that don't have a huge income and track every dollar spent? I'm afraid I'll lose. What I put in? This is a very interesting question, I think kind of relevant to what are your thoughts on that

Andrew

7:01

the advice is the same whether you feel like you can't? It's interesting, I guess, because it's a very good question, I guess we have to differentiate between being scared of investing and investing with money you can't afford to lose. So to talk about the second part first, because that's very important. When you invest money, you have to know that you're going to leave that money alone, and you don't want to invest money that you need really soon. So you know, you got a mortgage coming up in three weeks, and you want to invest the money and then take it out to pay your mortgage, do not do that. Because investing means taking on risk. And sometimes depending on what year, it is 2020, your investments can go down temporarily in value. So you always want to invest what you can, maybe not what you can afford to lose, but what you can afford to not touch so that it can grow. As the economy grows over the long term. That's one part of the discussion. The second part is Dave, what do you think about being afraid to lose what you put in I mean, it's,

Dave

8:09

it's a very real fear. And I know that I felt when I first started investing, it was something I was concerned about, for sure. And I wasn't necessarily putting in money that I needed. So I had a different a little bit of a different mindset, it wasn't that I needed the money I wanted, you know, I would like to have it. And I didn't want to lose it. But I guess my mindset was that I'm putting it in with a hope that it's going to grow over a period of time. And so my mindset was, is that in essence, I'm saving this money, like a squirrel, and I'm going to eat the acorn 10 years from now. And so and I'm hoping that instead of just one acorn, I'll have 10. And so that was my kind of my mindset when I went into it. And so I was afraid, I was afraid that I could lose it. But it was more, you know, a fear back in my head. And a lot of it will depend on a, you know, the mindset that you go into investing, if you feel like you're walking into a casino, and that you're going to walk out, then yeah, you're going to be afraid.

But the stock market is more of a weighing machine. In other words, when you put money in when you're buying a piece of a business, and that business does well over a long period of time, let's say five or 10 years, then that business is going to grow and the stock market is going to reward the stock price because that business has performed well over a long period of time. But if you go into it with the mindset that I need to, you know, kind of like what Andrew was saying, I need to make my mortgage in the next six months, then there's a heck of a lot more pressure on the stock, not the business to stock to perform well and that's a whole different ballgame. That's a different game to play. And Andrew and I Don't play that game. And we try to stay away from that game. And we try to encourage people not to play that game. So, you know, when you're thinking about, you know, could I lose it?

Yes, you can lose it, there is a risk. When you invest in, there's no easy way to cover that up or sugarcoat it or, you know, put chocolate on it, there's just no way to make it. Not a risk, there is a risk. But if you put it in there and you invest in, you can invest in safer things, air quotes, safer things, or you can buy certain kinds of companies that have a better chance of doing well over a longer period of time. You know, if you're really unsure about what to buy, then I would really stick to like we were talking about earlier, like an s&p y 500 ETF, or something that covers the whole stock market, as opposed to trying to pick the next Google or Amazon, that's a really hard moving target to hit. And so I guess that's those are some of the ways that I guess I would try to overcome that fear is, you know, realize what kind of game I'm trying to play, and try to find safer investments for me to dip my toe in and start, and then kind of go from there. What about you,

Andrew

11:07

when you say safe ways to invest? I could bludgeon you with all sorts on historical numbers. And Brian, for all the has done some good illustrations of those numbers, and made them really simple. I'll just say, when you say safe, a safe way to invest, if you have a long enough time horizon is to invest in the economy. And so the way I look at it as, look, it's 2023. Today, what was the economy like in 22,003? What's changed since I mean, we have social media, we have people making money, or living on YouTube, you have all these different things and the economy that has grown in the last 20 years.

And then if you look at the 2000 10s, versus, versus the 2000s, or the 1990s, the economy has grown, and businesses have found better ways to serve us. And so if you believe that that's going to continue to change, then investing in the overall stock market is a safe way to invest, because you're basically just saying, I think things are gonna continue to improve over time, as far as people being innovative and creating new businesses and businesses finding new ways to make profits. So that's a very safe way to invest. But to Dave's point, if you're trying to figure out how can I double my money in five days, there's no way to do that reliably. And that's not going to be safe at all. But in order for that 20 year time horizon to be safe, you have to stay in it for the long term. And that's not intuitive.

And that's why I think it's hard. And it's scary. Because it doesn't make sense. We don't learn this in school, nobody's telling us that oh, by the way, when you put money in the stock and your stock goes down, 20%, you can actually lose that money. It's kind of just part of the ride. That's not taught. That's doesn't make sense. But if you can understand, I'm buying stocks that are in the stock market, these businesses are going to grow, because that's what businesses I've done, then I, to me, that helps shift. And then you can say, I'm doing a safe thing with my money, because it's going to work for me. But there's just going to be a bumpy ride in between. If you can't have that mindset, though, then it's not a safe way to invest. And maybe you should be in I don't know, a savings account, or something that's not as up and down. That can be a way to go. But you also leave a lot of money on the table when you do that.

Dave

13:30

Yeah, for sure. Do we want to touch on? Like the the myth that you don't need to have lots of money to start and that here in the United States, particularly there are options to invest with partial shares and that kind of stuff? Not really, unless you want to know I don't have to. Alright, let's move on to the next question. All right, so we're going to move on to the next question. So we have, how to figure out how much to invest in each stock. Let's say I have 1000 pounds to invest and picked five stocks. Would I put 200 in each? Do you have any tips on this? So this is a allocation, diversification portfolio question. So sorry, Andrew, would you like to start with this one first, please.

Andrew

14:13

Or based on where the questions coming from? I would just kind of keep it simple. Because if you're asking how do I figure out how much to invest? It sounds to me like you're a beginner. So if you're a beginner, keep it simple. If you feel safe in five stocks, do five stocks, if you want to do 10, do 10 I actually think 10 is probably better than five if you're a beginner, or you could just do like a total market or s&p or you're in a whole market.

So you're in 500 businesses or 1000. Businesses. Five is good too, though. I mean, if you can find like five companies that you really like maybe you have an Apple iPhone, maybe you like to go to Starbucks, you could do things like that and just build a portfolio five, but for 1000 pounds, you know, we're not talking about life savings. I assume you're going to be building more than that. 1000 pounds over your life. So you just really need something to get started. And something where you don't have the risk of losing it all, from some freak accident, buy stocks is great for that. And I would go with something that, you know, like I bought Microsoft, my very first stock. And it was literally because I knew they had an Xbox coming out soon. And that was it, you know, but that helped me get comfortable with investing in the first place. What would you say?

Dave

15:25

I bought Microsoft verse two. And I've mostly bought it because I was using Word and Excel at work. So it just kind of made sense. So I would probably suggest the same strategy. You know, what, can you sleep well at night? Can you buy five companies and allow you to sleep well at night? Or do you need to have more diversification, because at first, you're probably going to be watching your portfolio seven or 15 times a day, and seeing how much everything goes up and down until you get used to the kind of the rhythm of the market, and then you'll pay less and less attention to it. I think it really comes down to how much conviction do you have in those five stocks? You know, how much research have you done, it's brand new, and you just want to buy Apple, Microsoft, Google and Tesla or whatever, and just call it a day, you know, assuming you're here in the United States reference in pounds, so he's obviously in England, but Great Britain, excuse me.

So you know, that would be a hate to say that depends thing, it really kind of comes back to what you're going to be comfortable with. You know, I think 10 would be ideal, especially if you're a beginner, I think that'd be a great way to kind of diversify across a whole bunch of different, you know, different kinds of companies to kind of spread your bets, if you will. And that way, if you pick poorly on two or three of them, it's not going to ruin your portfolio and discourage you from ever investing again. You know, hopefully this is a start of a portfolio kind of like Andrew was referencing as well. Let me I guess turn this around a little bit. What is something you wouldn't do? So we're talking about things you would do? What is one thing or a couple things that you would absolutely recommend? They do not do

Andrew

16:57

if I was asserting our portfolio from scratch? Now, I mean, I wouldn't put it all on one company. I wouldn't. I guess I wouldn't just buy something because I liked the company. But that I just said that you can do that as just getting started, I guess I would, I wouldn't expect that this is going to make me a million dollars, I would look at this as like almost my tuition or this, this is going to get me to the next step. As an investor, which is more I'm not overthinking how much to put in different stocks. What about you,

Dave

17:29

I love the idea of not putting it all in one company or one stock, I think that would be a huge mistake, irregardless of how great you think, Apple or Tesla or whatever company is going to be. I think that sets your stuff up for some pain and some failure. And I think that would be anything that would discourage you from continuing to invest over a long period of time, I would probably try to avoid I would also avoid any sort of things that appear speculative, or are the shiny new object, whether you want to consider that crypto or whether you want to consider that meme stocks, or you want to consider that, you know the flavor of the day, which is AI right now. Staying away from some of that stuff would probably be in your best interest, even though how could you make a lot of money?

Absolutely. But are the chances you know, it's kind of like when you go gambling, the house is always going to win. And so I think betting on some of those things, I think would be as a beginner would be harder to do. And I would discourage anybody from doing that, again, with the mindset coming from the mindset that anything that maybe discourages you from continuing to invest, even though you do have mishaps or downturns because they are going to happen. But anything that's going to discourage you from investing for a long period of time, I would try to stay away from I would try

Andrew

18:47

to put a habit into place. So it's less about this 1000 pounds, it's more about how much am I going to put in every month am I going to commit to putting in every month because that's what will build financial freedom. It's not going to be this 1000 pounds or this $500 stock. It's the consistent discipline of putting money in and letting that compound. Yeah,

Dave

19:08

very well said. Very well said. All right. Let's move on to the last question. Can you take dividends that you earn in your Roth IRA out as profits penalty free? Or are they 59 and a half as well? Thanks, guys.

Andrew

19:21

59 and a half as well, unfortunately, yeah.

Dave

19:24

Yep. Unfortunately, is that the same with a Roth and traditional or Roth? Yeah,

Andrew

19:29

for both. So because those are both IRAs, which stands for Individual Retirement Account, you have to wait until you're close to retirement to start taking those out without having to pay early withdrawal penalties. And there's usually extra taxes that come with those. There's a few exceptions right now, as we're recording this, you can take from a Roth IRA, for example, to put down as a down payment for your very first house, but there's very few strict rolls around that. So you'd have to do your research. But in general, you can't really touch that money unless there's a few specific exceptions that are laid out by the IRS.

Okay. All right. Anything else you'd like to add? No, I think that covers it. I mean, these are great questions. I sense that there's people out there who are making that first step or getting ready to make a change in their life. And it can be something very, very rewarding, not even just financially, but also, again, to be able to put your head on your pillow tonight and say, I did something good for my future. And it's not always easy because it is easier to buy a new iPhone than to put money and put it in the stock market and wait, bury that acorn if you will. Right. But there can be a satisfaction in doing that. And there can be lots of financial rewards for doing that. You just have to be patient.

Dave

20:55

Amen. Amen. All right, everyone. Well, that is going to wrap up our show for this week. Don't forget to subscribe to the show and your preferred podcast app if you enjoyed our little show. If you would kindly consider giving us a review. It greatly helps our show. And don't forget to browse the incredible materials we've created for you e investing for beginners.com. Last week, continue growing your knowledge as in investing for beginners insider with insights and educational tips delivered right to your inbox for free. Sign up today. And with that, I will go ahead and sign us off 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.

We hope you enjoyed this content. Seven steps to understanding the stock market shows you precisely how to break down the numbers in an engaging and readable way with real-life examples. Get access today@stockmarketpdf.com until next time have a prosperous day. The information contained just for general information and educational purposes. Only it is not intended as a substitute for legal, commercial, and or financial advice from a licensed professional review, our full disclaimer@einvestingforbeginners.com.