IFB303: How to Spread $10,000 in the Stock Market

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Dave

0:00

All right, folks, welcome to Investing for Beginners podcast today we have episode 303. Today, we have four fantastic listener questions we got from Spotify, and we're gonna go ahead and read those. So here we go. I have $10,000 to invest in the stock market, what stocks should I buy? And how to spread it out? Jason? So Andrew, what are your thoughts on Jason's? intriguing question?

Andrew

0:25

Well, thanks, Mr. Dave. Jason, you might not like this answer. But I'm gonna say that you should learn how to fish instead of us giving you the fish, because you're going to be an investor for the rest of your life. And you're gonna only have these $10,000 today. So I could tell you what to buy right now. But what's that going to do? When you have 10,000? Then, a couple of years, I would challenge you that you should learn how to fish instead of asking for fish.

Dave

0:50

So how should you go about learning to fish?

Andrew

0:52

You can start with our show, have a good start? I guess he's asking, How do I spread it out some 510 $1,000? How do I spread it out? I'm gonna go based on the assumption that you're gonna save more than $10,000 throughout your life. Hopefully, that's the goal for a lot of us. So in that case, if it was me, that was like a beginner just starting, I pick a round number and in that way, so you want to have enough baskets, where you're not putting all your eggs in one basket, you're not investing everything in one company, and that company could go bankrupt, we're gonna spread it out. So it's in different baskets.

But we also don't want to spread it out too much, where you're not going to get a lot of return. So if it was me, and I was first starting now, I'd probably just pick like 10 spread out over 10 companies over 10 months. And that makes it kind of simple and easy. But just because that's something I would do, it doesn't make it for everybody. So there's really no wrong way to answer this question. But I'd be curious, Dave, how do you feel like somebody can look at this and spreading it out? Well,

Dave

2:01

I agree with the learning how to fish idea as opposed to getting the fish and I think that will put you in good company, and it will bring you more wealth over a longer period of time than just getting 10 stock picks. And I think the way that I would go about doing it would probably be very similar to what you're talking about. But maybe what I would do is maybe consider taking a few 1000 of it and putting it in, let's say splitting that up. And maybe I'll take 2000 Initially, and I would take 1000 bucks and put it in an sp y fund, like an s&p 500 ETF or an index fund Vanguard has a lot of them very low cost very low fee. And that's a great way to kind of dip your toes into the market without taking on a huge amount of risk.

And for those of you unfamiliar with what I'm talking about an sp y index fund, or an s&p 500 fund, Spy is the ticker I'm thinking of, but there's also vo o or VTi, there's lots of choices, and you're not really going to go wrong, like not one is drastically better than the other, it just kind of depends on you know what broker use and how available it is for each broker. And let's say that you decide that you want to use the ticker vo O, you buy $1,000 worth of that particular ETF and you start learning about the stock market, it gets you involved right away, it gets you skin in the game, it also gives you a fair amount of diversity right out out of the gate, because you're buying 500 of the best companies in the United States, which you could argue is the best economy in the world. And it's a great place to put your money and it's relatively safe.

Meaning that it's unlikely that 500 companies in that index are going to go bankrupt, there may be a few, but that's not really going to impact you much. And you're gonna get to partake in companies like Microsoft, Apple, Google, Visa, MasterCard, el Avants, United Pacific Union Pacific, I'm sorry, I just on and on. And on

Tesla, there's there's so many good, great companies in the s&p 500. And you're gonna own a piece of them to start with, then I would probably take $1,000 And maybe pick two companies that I don't really know anything about. But maybe they're products that I use a lot, you know, common uses of that are something like Starbucks and Walmart, for example, to easy companies to buy. Most people are familiar with the names and what they do. And it also kind of gets your it gets your your feet wet. You get to learn what it is to buy and hold an individual company. And it's not always easy.

And I think those kinds of things would probably be a great place to start. I'm not saying go out and buy Starbucks or Walmart. I'm just using those examples that could easily be Netflix and Google for that matter, or anything else that really strikes your fancy. The goal here is not necessarily to buy the next Amazon or Google, although if you do buy Google and Amazon, that's nothing wrong with that. But the idea is to put some skin in the game and really understand what it is to own a company in the stock market and to see the volatility on a day to day basis. And when you have money in the market, you're going to, you're going to pay a lot more attention than if you're just watching the company on your stock ticker at work on your computer, you don't really have any engagement, there's no involvement in it.

But once you have money in it, then it's going to mean something. And then I would start trying to learn how the stock market works and learn whether the two companies that I chose are good ones are not. And because if they're not, you can sell them and buy something else. And you may lose some money. But that's also sometimes a great education, to learn why I don't want to buy these companies for list myriad of reasons. And that's a great way to start educating yourself on things that I really want to buy. And it can also teach you maybe I don't like this, maybe this isn't for me, maybe picking individual companies is not the way that I should go.

And then you can double down more on the index investing idea. But if you find you really like it, and you're passionate about it, and you think it's fascinating, then it can be a great launching point to defining other companies. And the other thing to think about too, and Andrew and I have mentioned as many times in the show, is really, really hard to find one or two good investment ideas in a month, let alone 10 or 20, or 30 in one month. And if you can, you're way better than me, and you shouldn't be listening to this podcast. So I guess the point is, is that I think using this money as a way to educate yourself for longer term returns and gains, I think is a great way to do it. And then trying to put a little bit of skin in the game to start with not the whole amount, but a little bit enough that you feel like I got something invested. And I'm going to learn about this, whatever that amount may be, it could be different for every person and then go from there. I think that's I guess how I would try to look at it. What are your thoughts?

Andrew

6:57

My thoughts are I agree wholeheartedly with that. I love the idea of dipping the toe in and putting enough where you have skin in the game, but you're not putting it all in and potentially regretting when you really don't know, you have no idea you're just getting started. So $1,000 is a pretty inexpensive tuition to learn in yourself and learning the market. And to your point. I mean, it's like riding a bike in a way. You don't really know what it's like until you get on the start writing. Right?

Dave

7:28

Yeah, exactly. You know, and for me, I started off buying Microsoft and I bought, I think it was four shares. And it was trading in the 30, some Buck range. So it was like $120 investment to start. So not, you know, huge money by any stretch of the imagination. But for me, it was scary. And I didn't know what I was doing. And I got lucky and picked Microsoft and did well right from the get go. The next company I bought was Activision again, not a whole lot of money, I think it was trading around $50 A share at the time. And I put in three or four shares. So again, not huge steak of money.

And it did really well. But then I bought two or three other companies that were complete dogs, and did really, really, really badly. And that is what really kind of made me go, oh, this, I guess is not an easy game. And everything you pick is not going to be a winner. And I need to figure out why were those companies bad? And what can I learn from that. So I don't make that same mistake, because I had already been bitten by the bug. And I wanted to invest. But these other three companies could have easily turned me off. But instead I used it as a launching pad to learn how to avoid those in the future. That is the

Andrew

8:37

right mindset to have. Because to your point, who's going to find their number one first stock they ever pick to be the next million dollar company? I mean, right? It's not very likely for most investors. So would you put like a timeline on it? Or do you think people should just kind of just do what feels right for them? Like, what? Did you put a timeline on it? Or did you just kind of follow the White Rabbit so to speak?

Dave

9:02

Yeah, I basically followed the White Rabbit, I did not put a time limit on it simply because I felt like I needed to learn more about what I was doing, than just continue to blindly throw good money after bad kind of thing. I was lucky and had a mentor in the branch that I was working at at wells that kind of guided me to not throw good money after bad. And you know, as eloquently said, don't water the weeds. And so I didn't do that. And that was great advice. It also gave me I guess the confidence to hold off and try to learn more before I started putting it in. And then once I started figuring out maybe a better path to go. Then I started putting money into the market consistently.

But prior to that it was kind of a there was a bit of a learning curve that I had to go through before I started so I didn't put a time limit on myself. Everybody is different. And so some people may be motivated by that. And so that could encourage them. to spend more time trying to learn this, instead of taking maybe a you know, more laid back approach, it really kind of depends on what's driving you, where you are in your financial journey, how old you are, where you are in your career, all those things can certainly make an impact. But for me, it was more about I figured out very quickly, mostly because after a few months, I had some losers. That were pretty significant losers quickly. That Okay, I need to really figure this out before really continue putting good money after bad.

Andrew

10:29

Yeah, that totally makes sense. Looking back, actually, it took me two years before I started between the time I bought my first company to the time I said, Okay, I'm gonna invest every single month has around two years

Dave

10:41

gap there. So yeah, for me, it was probably bout a year. Yeah, yeah. It took me about a year to kind of figure out okay, this is why this was so bad. This is why this could be good kind of thing. Yeah. I mean, I'm still learning. The always gonna be worried.

Andrew

10:58

Yeah, I wonder too. Like, I know, I've said on the show a lot, like, try to read some books about investing. And that really helps. But if I think back to when I bought my first company, I think I did the buying first and then read the books after. So I almost wonder if like, the books are easier to understand, once you have some skin in the game versus the other way around? I say I can't, I can't know. Because I do it one way or the other way. I did it a certain way. But you just wonder if that helps with the learning curve?

Dave

11:28

You know, I think I would think that it would, and here's why I would be afraid that I would start to have serious paralysis analysis. Like, I feel like I need to read this book before I can do it, or I need to do this before I can do it. And when I was in the bank, I saw people, you know, I talked to people at my desk about investing and how important it was. And some of them were very well educated. Some of them knew way more than I did, and had read so much material, but they just, they couldn't get over the hump that they felt like they needed to know more, I need to know more.

You know, you've read the intelligent investor, and you've read this book and that book and this book and that book, and you've read all of Buffett's shareholder letters, and you've taken accounting classes, and, you know, you're ready, and they could move past the paralysis analysis. And that's what I guess I think that putting skin in the game, and really having motivation, I think really helps you know, whether it's 10 bucks, or whether it's $10,000. I think having some skin in the game, I think is very helpful. I agree. Let's move on to the next one.

So we got Hi, great site was wondering, do you know if we get qualified dividend tax treatment for ADRs as US citizens if we hold for 121 plus days, for example, ADRs for companies based in Columbia, Canada, South Africa. Thanks, Ken. So this is a great question. And we have not touched on ADRs much, if at all before. So I think this will be kind of a cool thing for people to really understand what we're talking about.

Andrew

12:58

Now, let's camp out here, this is pretty big, but it could be very helpful, especially if you're looking to invest abroad. So ADR basically what that means is it's it gives you the ability to own stock that's in a different country. So as an example, one of the ADRs on in my brokerage account is TSMC, or Taiwan Semiconductor, because they are based and headquartered in Taiwan, I can't physically buy partial ownership of that company. And so what, I don't know who's done this, the brokers, whoever it is in the system, they've created these ADRs, which, basically, you buy, instead of buying the shares of a company in Taiwan, that gives you partial ownership of the company, you buy an ADR, which represents a certain number of shares in Taiwan, and I don't have a hold up right now. I think my ADR entitles me the five shares of the company in Taiwan, or five shares, or five ADRs is one share, I don't know exactly, but they do all the conversions for you.

That's something I could easily look up. And so because of the ADR thing, you're able to buy stocks in Netherlands, Taiwan's one lot of different countries. And because it's an ADR and it's not the same as buying shares of Apple, there's different rules, both on the tax side and kind of just generally how it works. So maybe we can dig into some of that. But if somebody was asking you, what's an ADR why as a matter how would you answer

Dave

14:34

very similar to the way you did that, it basically allows you to be able to buy shares a foreign countries that may or may not trade on a US exchange. And so they're typically associated with countries like Taiwan, China, and some other countries like that. Those are the ones that I'm most familiar with is those countries, but it basically it allows you to have ownership or partial ownership of a company that does not trade in the United States, it allows you to access those countries and the liquidity of those countries.

And it's an easy way to get into those without having to try to figure out how you can buy something on an exchange in China or in Taiwan, for example. And so it makes it a little easier. They believe that the Taiwan Semiconductor does have a ticker on the New York Stock Exchange, which allow you to buy them in Taiwan. But that's about as far as I know, as far as the dividends and stuff go, that's definitely more your your domain.

Andrew

15:28

Yeah, we could talk about the dividends. So the the whole dividend things tricky. If you're a beginner to investing, I feel like I still remember when I learned this, and it made me very, very sad. Because you feel like you're coming to investing trying to build wealth. And then you find out that even as you build wealth, you have to pay taxes on it, that can be very depressing. So don't kill the messenger, I'm sorry for the bad news. If you invest, and you're not in tax advantaged accounts, like a 401 k or a Roth IRA, if you're not in those are going to be taxed, you're going to be taxed on the dividends, you're gonna be taxed when you sell any capital gains you get from it, I'm sorry, that's just the reality. When you buy stock in a country that's outside of the United States, you're gonna get taxed again. So you'll get taxed by let's say, for Taiwan, he attacks by Taiwan, and then you get taxed by the United States as well.

So there's some ways to mitigate that, or example, the US has tax treaties with different countries, Taiwan, being one of them, where you can get a you can basically get like a tax credit on the tax you paid. It's a little bit confusing, but basically want to work with an accountant. If you're doing this, the taxes go automatically to the foreign country, your taxes with the United States, you pay but then you apply for credit, and then you basically get it back as a tax refund. That's kind of the whole idea. And so depending, here's where it gets really confusing. Depending on which country you're dealing with, when you buy stock, some of them will have tax treaties, and some of them won't. And some of them the rules will be this percentage, and some of them were the rules will be okay, you can just get 100%, it makes your head spin, actually, if you start looking at the different possibilities, but there's so many different tax rules. And that's one of the reasons why I'm so hesitant to buy outside the United States, because for one, you have the whole tax thing. And then some countries don't want to necessarily say which ones but they don't their governments aren't set up to fend private REITs, like some other countries are.

So you have to be careful with that too. But as far as the dividends thing, it really depends. So I'll use the Taiwan Semiconductor again, as an example, I hold those shares in a Roth IRA. So remember, a Roth IRA means there's a tax shield on it, because it's a retirement account. So you get a tax shield on one side of the money. So what happens with my shares with Taiwan is one I get a dividend from the company on my brokerage statement that says you receive the dividend. And then there's a line item that says, foreign dividend tax paid. So because I'm with fidelity, they handle that for me with Taiwan. And then there's another line item that says the rest of the dividend which I always reinvest.

So that kind of breaks it down for you, that's with fidelity brokerage, right. And that's with Taiwan, whether that's consistent with Ken talked about Colombia, Canada and South Africa, some of those countries might not necessarily have the same kind of political relations, US and Taiwan, for example. So it might not be that simple. It might not be that cut and dry, there might not be a tax treaty at all. So I don't want to speak towards those other scenarios that I would say you do does get very tricky. And you do want to basically do your due diligence on that and make sure you're trying to cover all your bases.

Dave

18:45

Yeah, that's exactly right. And I think the biggest thing that I would probably, if this is something that you're concerned about, I would strongly encourage you to reach out to your broker and talk to somebody from your broker, because they will be able to give you some, at least guidance on what the rules are, and then probably talking to your accountant to help you manage however, whatever you need to manage with each particular company, or country, I own some shares from Canada, I also own some shares from the Netherlands. And the two companies that I own from the other ones don't pay a dividend, so I don't have to worry about that. The one from Canada does. And to my knowledge, the shares are one for one.

And the dividends are treated exactly the same as they would be here in the United States. But I would have to check my brokerage account. Frankly, I didn't pay that close of attention to look. And so I'm not exactly sure how the candidate did that. But I do know that the shares were one for one. And that's kind of what I know,

Andrew

19:46

I haven't bought Canadian shares. But their whole ADR thing works way differently than the USA the RS with La the other countries. So that one's kind of its own unique thing. Right. So I guess if you're a wannabe stock picker If you're hearing all this stuff, and that sounds super, super confusing that what would you say to somebody if they're saying that only ever want to deal with all of that? Why would I pick start to say that?

Dave

20:09

Well, I would say that if picking individual stocks is something that sounds interesting to you, don't let this discussion of ADRs, or anything of that nature, I guess dissuade you, because you can get fantastic returns by doing it that by picking individual companies, and it can be a lot of fun, too. I think the other thing to consider too, is I would probably try to stick to your home bias initially. So if you're in Canada, try to buy companies in Canada until you feel comfortable. And then you can branch out and buy companies in the United States or South Africa, if you want, you don't have to start off being super complex, just because I think I would probably try to, I guess, simplify everything as simple as I could make it and no simpler and then kind of go from there, this is not something that I would have, in my first two, three years of investing, I would have touched with a 10 foot pole until I felt more comfortable with really what I'm doing, and how that whole situation works.

Once I got more experienced that I was willing to kind of branch out and invest outside of the country. Now, obviously, if you're talking bigger sums of money, then you know, we're talking hundreds of 1000s of dollars here, there's a lot more on the line than putting $100 into a company from Canada. So if that's the case, then you definitely need to have a professional talking to you about the taxes and the implications before you pull the trigger on something like that. Because once you do, then it's a lot harder to mitigate any potential problems or work around situations. So it's better to know what you're getting yourself into before you go into it.

And I think that's kind of how I would look at it. But bottom line is, if you're newer to investing, I would hold off on investing outside of your home bias wherever that may be until you feel more comfortable with it. If you're in Europe, stay in Europe, you know, if you're in the United States, stay in the United States until you feel more comfortable and feel like you can understand these more nuanced complications that could come up

Andrew

22:05

the tax stuff is really simple. If you stay home, at least here in the United States. Yeah, it's as simple as the broker giving you a form that you download, and then you can put it on TurboTax. Or you can save it to your accountant. Right,

Dave

22:19

right. It's much more streamlined and much somewhere, when you want to start playing in other countries and dealing with other tax codes and other tax laws, then it can become a lot more complicated, especially if there's lots of money involved.

Andrew

22:31

So I'll say this as well. So while there's it's always complicated when you look at ours, for all the ADRs, I've looked at, I'm talking about like the big ones that are, you know, hundreds of billions of dollars market cap these kinds of companies, I'm not talking about some Joe Schmoe company with like 5 million in market cap, talking about the big companies that everybody knows are very global. With those companies, you can look, a lot of them have disclosures and their annual reports and their 10 K's, right. And I'd suggest a strong cup of coffee if you gotta go through that.

But you can do that. And while it's not tax advice, they do generally outline a lot of really good information that and can speak to the specific situation that you're looking at. So whether you're a US investor, or you live in the EU, or whatever your scenario is, they usually try to outline the different details. And so you can get that kind of information straight from the company that you're trying to invest in. And if you can't find that would probably be a red flag for me, but in the to hard pile. So you can totally do the research. It doesn't have to be like a hopeless Google search.

You can go to these companies, annual reports. And check that out. I also did a blog post on kind of showing an example. So I walked through, I think it was a German company. I walked through how I looked at their annual report and kind of highlighted different screenshots of what I looked for. So you can go on our blog, and you can search ADR and one of those will pop up my blog posts. And that can help you if you know you're serious about investing and you want to pick the right companies, but also do it in a way that you're also getting all your bases covered with the taxes obviously, that's what I would suggest. Yeah,

Dave

24:18

great advice. fantastic advice. All right. So let's move on to the next one. So we have I recently started listening to your podcast and find it very helpful and informative. Still haven't taken action on buying a stock with the new information I have learned. I was wondering if there's a specific episode or episodes that could help jumpstart a beginner that you would recommend listening to or just start from episode one as I've been doing. So this is a good question.

Andrew

24:42

My suggestion go the Back to the Basics series. So every once in a while we'll do like a back to the basics. One IFP 231 IP 201 Our first original OG back to the basics was I have before the three way I was actually a five part series So I won't go into any of that back to the basics episodes and start there. Because we've covered so many things on the podcast, some of them are more beginner, some of them are more complex, I would just kind of recommend trying to start with some of the back to the basic stuff until that stuff seeps into your mind. And then you can move on whatever most interests to you after that,

Dave

25:20

I would highly agree with that. And I think one of the things that I would suggest is you're going through some of those back to the basics, if there are things in there that you do not understand. Take notes of those, and then go to our website, the investing for beginners.com. And search for those in our search bar. Because there are going to be lots of additional information there that can help clarify some of the things that we're talking about. And all those combinations of information and resources can help give you a base for learning how to pick individual companies or how to invest in the stock market.

Because if you don't know those things, it can set you back, you can cause you to maybe make poor choices, when you start investing, and by kind of having a basis of knowledge or foundation, then you can start build on some of those things and start learning some of the more complicated, you know, theories and ideas and they can help you go along Long ways as investor if you really have a good foundation. Yes. Alright, so we got the last one here. So in IFP 296. What's the new stock that you said you lumped into Thanks, Craig, wink, wink?

Andrew

26:26

Well, Craig, you can go the value spotlight.com. And you can find that out right away. People pay for that research. So sorry, I can't give it to you. It is my number one position. It's almost 15% of my portfolio. It's still a goodbye as we record this today, arguably even better now. And if you can get in before their next dividend, it'll be pretty nice. So I can't give it away. Sorry, Craig. But value spotlight.com is where you can get that information.

Dave

26:54

Awesome. 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 and your preferred podcast app if you enjoyed our little show. A nice five star review will go a long ways to helping our show and helping people find our 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 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 you all next week.