IFB311: Exploring Passive Income Opportunities and Our Top Financial Mistakes

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Dave [00:00:00]:

All right, folks, welcome to Investing for Beginners podcast. Today we have episode 311. Today we are going to talk about two different topics. So first we're going to talk about maybe some practical ideas to generate passive income. And then we're also going to talk about maybe some of our top money mistakes. So you can hopefully learn from our boo boos. So let's dive in and talk about the good stuff. First, let's talk about some practical ideas or passive income maybe.

Dave [00:00:26]:

First, let's define what we think passive income really is.

Andrew [00:00:29]:

Yeah, it could be a loaded question, couldn't it?

Dave [00:00:32]:

Yes.

Andrew [00:00:33]:

My idea of passive income is planting a seed and letting it grow. Maybe that means you got to water it every once in a while. That could mean you definitely got to think about where you planted it. But I feel like there's a lot of ideas online about generating passive income that's not really passive, and I don't agree with that philosophy. What's your kind of opinion on passive income?

Dave [00:00:58]:

Yeah, I kind of feel the same way. I think a lot of the time the Internet hypes up passive income as this amazing, awesome idea, but the ideas that they roll out to air, quote, generate passive income are far from passive. And so I think it's probably mislabeled. I would probably call those more like side hustles or other jobs or hobbies that you do to create income. I wouldn't consider them passive income. Passive income, to me, means that, like you said, you plant a seed and then you watch and let it grow without a lot of interference or effort from us or me. And so that's when I think of passive income, that's what I think of.

Andrew [00:01:42]:

So you're not delivering pizzas for passive income?

Dave [00:01:44]:

I am not, no. To me, that is not passive. That means I have to get in my car, I have to go to the pizza place, pick it up, and take it to somebody. And that's time spent. It may not be hard work in the sense that I'm not digging a hole in the ground, but I'm not sitting in front of my TV watching a baseball game either. So that, to me, is more passive than having to get in my car and go to somebody's house and drop off three pizzas.

Andrew [00:02:11]:

Yeah, I guess there's like a million ways we could go with this. Would you consider writing a book passive income?

Dave [00:02:16]:

Yes and no. The writing of the book is not going to be passive by any stretch. But if you have a successful book and it does well for you, then you're still going to have to do some work after it's released, promoting it and maintaining it and making sure the distribution happens and those kinds of things. Yeah, you could have passive income if you write a book like The DA Vinci Code from Dan Brown. If you write the next one and you never write another thing that could obviously make you a lot of money for a long period of time. But A, the chances of that happening are pretty slim. Number two, there's still a lot of work you got to do to write the book and promote the book and get it published and go on tour to promote the book. And it's far, far from passive, at least at the beginning.

Dave [00:02:58]:

There's really only one way that I can think of that's really passive, and that's investing. What are your thoughts?

Andrew [00:03:03]:

Yeah, I mean, ask an investor what his opinion is and he'll give you that answer.

Dave [00:03:08]:

Yeah.

Andrew [00:03:09]:

And yeah, even certain types of investing are more active than passive. But that is the beauty of investing, especially if you take a super passive approach like just buying index funds where you're just buying the entire stock market and just hitching a ride to the economy and letting the rest fall where it may. That's a very passive, very safe, over the long term, very safe way to generate income. And, oh, by the way, I think we forget sometimes these stock market indexes will pay you dividends. You buy an ETF that has the market, you get these dividends. That's income. I know it doesn't sound like a lot, but that income. That if you reinvest it and let it grow on its own and compound, it starts to snowball.

Andrew [00:03:55]:

That can become significant amount of income. And that's how Warren Buffett does it. Now, he's snowballing his dividends that he's been snowballing since he was like eleven, however long that's been, 70 years, 80 years.

Dave [00:04:07]:

Yeah, that's true. I think investing is like you said, we're investors, so we think investing is the greatest thing. But it can be an amazing way to passively invest your money without having to put a lot of work into it. If you want to buy individual companies, then that's going to require more work. But if you invest in your 401K or you invest in index funds, ETFs, those can be far less work on your end to maintain them, to find new options. And you can literally just put money in those accounts for many years and just let them just keep compounding and let them do all the work. And like Andrew said, they generate dividends which you can choose to reinvest, which will help compound the returns even faster. Or if you want, you could take them as cash and use it to go buy pizza every week.

Dave [00:04:51]:

There's a lot of ways to slice that. I guess the one thing that I want to caution people on is a lot of people I see a lot on the internet, and this is what I want to discourage people from. People feel like that real estate investing is perfect passive income and it can depend on how you set it up and it can be more passive than not. But we had Tony and Ashley from the real estate rookie podcast not too long ago and what they were talking about and the way they were talking about investing in real estate was far from passive. And there's a lot of work that goes into it and it's a lot of effort and a lot of time consumed to do it. And I'm not saying that you shouldn't do it. I'm just saying expectation wise, understand, that it's not just all fun and roses and you just, hey, I bought a property. This is going to be easy.

Dave [00:05:40]:

People are going to rent it. And I'm never going to have problems. And you're never going to get a call at 03:00 in the morning when your refrigerator breaks, or you're never going to get a call on a Saturday afternoon and the water main has broken and you can't watch your football game. So understand that going into it, that there is going to be effort that's going to need to be put out for those kinds of investments or you're going to have to spend a lot of money for other people to do that work for you. And so there's trade offs along with that. And you have to understand that I was at a conference not too long ago and somebody was talking about the ups and downs, mostly downs that they were laying of owning. I think it was seven airbnbs and all the things that they had to go through. It was hilarious presentation, but I went away from it thinking, wow, that's a lot of work and I would never ever want to do that and that's just the way I'm built.

Dave [00:06:29]:

But I know that real estate is always kind of offered as this great passive income potential and I just want people to go into it with their eyes wide open. Go back and listen to our episode with Tony and Ashley. You'll get a good sense of what we're talking about.

Andrew [00:06:43]:

Yep. Would you say there's good ways to accelerate your passive income?

Dave [00:06:47]:

That's a good question. I think the best way to accelerate it is to earn more money. That I can think of and there are several ways you can go about doing that. One is you can try to negotiate a higher salary. You can also look for ways to maybe find a new job. Maybe you feel like you're underpaid or underappreciated at your current position and you could find another position in the same field that maybe pays better. That could be an option. You could also look at schooling and improving your skills or your resume, giving you more options for either the place you work or other opportunities that could pay you more.

Dave [00:07:23]:

And you could also look at side hustles, creating money on the side, whether it's something you want to build yourself, like you love to do water paintings and you can figure out a way to sell them, that would be fantastic because that's a hobby you love. And then you could sell them on site and make some money, or you could sell pizzas. You could go deliver pizzas if you want. Uber Eats, I think, is available pretty much anywhere. And that would be an option as well.

Andrew [00:07:47]:

This is too practical, man.

Dave [00:07:50]:

Well, it's far from sexy. But just because you do something like that, let's say you decide to do Uber Eats, for example, you don't have to do it forever. You could do it for a couple of years, or you could just do it only in the summers or only in the winters when there's nothing to do in the summers if you live in the Midwest. And you could do those kinds of things for short bursts of time to earn some extra money that you could put in the stock market, for example. And that money would compound because you've put extra money in the market, and that would help accelerate your returns that way.

Andrew [00:08:23]:

I'd like to take this moment to jump on the soapbox for a second. I know.

Dave [00:08:27]:

Jump away.

Andrew [00:08:28]:

Thank you. Carly Munger has talked about the first hundred thousands the hardest. I think he says something like that. And it's an interesting concept, and maybe it's hard to grasp when you're first starting out, especially if you feel like, man, I'm doing the side hustle, making like $100. What am I doing here? Yeah, but you think about average returns in the stock market, about 10%. Again, if you do no work, you just put it in an index fund over, let's say, 10, 20, 30 years, you might get around 10% return. So 10% of my $100, that doesn't sound like much anything to get excited about. We're talking about $10.

Andrew [00:09:06]:

But when you understand that the amount of effort you take to make 10% on $100 is the same amount of effort you would make to make 10% on $100,000 or a million dollars, now we're talking about big numbers, $10,000. So it's a really valuable skill if you can accumulate the money to have that power working for you.

But everybody has to start at zero. Outside of being lucky and being born into something, everybody else has to start at zero. And so, yeah, it is hard and it is a grind to get to 100,000. But part of investing is learning to live without the money that you're investing, because if you're doing it correctly, you're supposed to not touch the money that you're investing. And so it's the same life you're living, but the numbers just start to get bigger and bigger and bigger, and it's the same amount of effort on your part. And there's no perfect sweet silver bullet to this whole solution, but that is a very nice, attractive feature of investing in the stock market and doing it passively.

Andrew [00:10:13]:

Once you get to the numbers, it becomes a lot easier, I guess.

Dave [00:10:18]:

Yeah, I think that's a great illustration and a great idea that I think having a goal and then figuring out ways to get to that goal. Once you get to that goal, then you can start maybe easing off on some of those things. And when you're younger, you have a lot higher energy level and a lot more motivation, and it can be easier to do those things. And I think one thing that we've talked about this before, and I'll mention it again, when you think about something like a side hustle or a second job or something else that you can do to earn extra money, try not to think of it as, I have to be a big winner in this. I have to hit it big with this. You don't. You can earn a couple of week doing Uber eats or working at a restaurant, waiting tables on Friday and Saturday nights, and those kinds of things will add up over a long period of time. If you think about that, let's say that you make $200 a week as an extra job.

Dave [00:11:15]:

That's $800 a month. And you look at that over the course of the year, that's almost $10,000 that you can save just by doing that. And that may not sound like, oh, gosh, $10,000, but in ten years, that's $100,000. So that's without investing it or doing anything with it, when you put it into that kind of perspective, then it can start to go, oh, my gosh, that could be bigger numbers. And if you're in a position where you can, like I said, renegotiate your salary or find another job that pays you more, that you can get that extra $200 a month just from that, and then take that savings and use it that way, problem solved. So there's a lot of ways to go about doing it, and I don't know that there's quick, rich, easy for me to say way to get to $100,000 overnight. It's not going to happen. You're going to have to work for it.

Dave [00:12:04]:

And like Charlie said, it's going to be hard, but it's going to be worth it. And then once you get there, then you can ease off and do other things, and you may find something you really love to do other than what your job is, and that would be an amazing situation as well. So there's lots of upsides to all this.

Andrew [00:12:22]:

I love that mentality.

Dave [00:12:23]:

Yeah, me too. All right, so let's talk about our top money mistakes and what we learned from them. I'm going to let you take first serve.

Andrew [00:12:31]:

Thanks. Yeah, put me in the hot seat.

Dave [00:12:33]:

Yes.

Andrew [00:12:34]:

One that just kind of pops to mind that I laugh at now, but looking back, probably wasn't the smartest thing was when I was a freshman in college. No, I guess I was a sophomore. I was getting some student loan aid. I don't even know if what I did was legal. Statute of limitations. Well, yeah, that's embarrassing. Well, okay. When I was young and dumb, I had some extra financial aid money, and I obviously don't recommend doing this, but I had a dorm that was partially being paid for from student help, and then I also had an apartment.

Andrew [00:13:11]:

So I basically had two places I was living at the same time. One place I would hang out with my school friends and get my work done, and the other place I would hang out to chill and have fun and stuff, and those are my fun friends. So looking back at that and if you just took the raw numbers from that and threw it in a compound interest calculator, I haven't done it yet. I probably want to rip my hair out if I saw, and that was really dumb, and I would obviously recommend not doing that. I don't know why I did it. I guess back then I never saw a dollar today as what it could be tomorrow. I just always looked at it as a dollar today is a dollar today, and I have more dollars today than I had yesterday, so I can afford to spend more, so I'm going to spend more. And that's basically what I did.

Dave [00:13:59]:

Yeah. When I was in college, I got my first credit card, and I believe I was a junior in college, so I was 20, and I got my first credit card, and I kind of went town with it because I thought it was free money, and I think they gave me a $2,000 limit. I don't know why. I had a part time job at the time. And it was all dumb stuff, too. It wasn't anything big. It wasn't like I went out and bought furniture or a big screen TV or anything. It was buying pizza for me and my friends, buying flowers for a girl that I liked, buying presents for my family for Christmas and all this stuff.

Dave [00:14:37]:

I went over the limit. So I think I ended up spending almost $3,000 on the card in a month. And when I got the first bill, I remember opening that, it was kind of thick, and I was like, Why is it so thick? And then I opened it and it just fell to the floor unfolding of all the charges on there, because it was bad. It was really bad. And so I had a moment of shock, and then I had a moment of anger, and then I had a moment of fear. And then I remember calling my parents, and my dad actually laughed. He thought it was pretty comical, and he didn't bail me out, so he did me a big favor. He didn't bail me out.

Dave [00:15:16]:

And so then I had to call the credit card agency and have them put a hold on my account. And then it took me almost two years to pay it off, so I had to pay it off through my side job, which was cleaning houses. I would go to people's houses and clean them, mop the floors, vacuum, dust, all that kind of stuff. And that was at, like, I don't know, $7 an hour back then. So it took me a while to earn enough money to be able to pay it back, but I did eventually, and then I ended up closing the card. But, yeah, that was my first real big, like, I don't know what this is. I could just spend the money. It's free money.

Dave [00:15:55]:

Right. Didn't realize how it actually worked, that I'm going to have to pay interest on this and it's due when it comes due at the end of the month.

Andrew [00:16:02]:

I'm still laughing about a paper statement. Yeah, that visualization.

Dave [00:16:09]:

This was in 1984, so it would have been way before the Internet.

Andrew [00:16:15]:

What would you have told 20 year old Dave if I got the card? Stopped him? Yeah, you got him and he was like $200 in only or something, right?

Dave [00:16:22]:

Yeah, I would have told him. What I would tell my daughter is it's great that you got the card, but only use it for things you already have the cash for and then pay it off. So if you're going to buy gas, if you're going to buy groceries, if you're maybe going to go out to eat with your friends, it's okay to use the card, but as soon as it comes, when the next week comes, go online and pay it, be done with it. Just already have the money in your checking account to pay for it. You're just choosing to use the card instead of the cash so you're not out the money.

Andrew [00:16:52]:

So what about it in particular is so dangerous? Because I think it's interesting in your case that it sounded like it was like death by 1000 cuts.

Dave [00:17:01]:

Yes, it was.

Andrew [00:17:02]:

And it doesn't seem even the interest, if it's, I don't know, 2025 Apr, but you're talking about $100, and it's amortized over a year. The interest charge probably isn't that much, and then the payment is not much, so it kind of slips and it doesn't seem like a big deal. Why is it?

Dave [00:17:24]:

Why is it? Because if you look at, let's say that you have a $2,000 limit and you max it out to that $2,000 limit, you're getting charged that interest rate. And if you pay the minimum payment, let's say it's $50, $10 goes to paying the principal of the $2,000 back. The $40 goes to the interest that you owe on that $2,000. And so you only reduce that balance by maybe $4. And so credit card statements will do this. They'll show you how long, if you pay the minimum payment at this balance, how long it'll take you to pay it off, and how much it'll end up owing you. So that $2,000 may not sound like a lot, but if you take seven years to pay it, that couldn't end up costing you $5,000. In total, between the $2,000 in principal, the $3,000 in interest that you owe.

Dave [00:18:20]:

And if you're making those minimum payments, it's so little eats away at the principal that that's why it's so deadly, and that's why it can really get you in a lot of trouble really fast.

Andrew [00:18:31]:

Yeah. When you think of it that way, it's like, I'm putting this $50 bill in and five of it's going to what I spent yesterday.

Dave [00:18:41]:

Right? Yeah, exactly. When I was at the bank, I would tell people all the time, especially young people, when they got a card, when they would get approved for a credit card, this is not free money. Do not go out and buy the latest Xbox and then end up spending $4,000 more for the Xbox than you would have, because that's what's going to happen if you max off the card and then you make minimum payments. That's what's going to end up happening.

Andrew [00:19:06]:

That's tough because they know how to do it, where that 200 or $400 Xbox only ends up being like, a $10 or $15 payment. And so what do I care if $9 is going to the bank and interest and one dollars only goes to me. But, like, your example showed, that mentality is so easy to just perpetuate.

Dave [00:19:29]:

Perpetuate, yes.

Andrew [00:19:31]:

Why stop when it's just a dollar here, a dollar there, right?

Dave [00:19:34]:

Exactly. Well, the thing that it took me a little over two years to pay that back, and most people out there are probably okay big deals, but that's $3,000 plus that I couldn't spend on things I wanted to spend. Now I owed it to somebody else, and I had to work that hard, basically, for them. I wasn't working for me. I was working for them. And that's where the danger of having a credit card and maxing it out can be is now you're not just working for yourself. Now you're working for another person to pay them back more than double. A lot of times the money that you already used for whatever it is, whether it's a vacation or buy groceries or gas or something like that, you're still working that much harder for somebody else longer, and that's the danger of them.

Andrew [00:20:21]:

Yeah. And that's what happened with my student loan. I finally made it big. I put that in quotes because my work history has been a little volatile. When I finally made it big in engineering, and all my coworkers are buying nice things and buying homes and buying cars, I was paying off my student loan partially because of a stupid mistake I made when I was a second year, and I thought it'd be funny if I had two apartments at the same time.

Dave [00:20:46]:

Right?

Andrew [00:20:47]:

Who's laughing now, bud?

Dave [00:20:49]:

Right? Yeah, exactly. Exactly.

Andrew [00:20:51]:

So what are some practical ways know? Let's say you are somebody who's very self aware for a young age, and you want to avoid the dumb mistakes Andrew and Dave made, or maybe, you know, somebody who you care about and you don't want them to make the same mistakes that a lot of us have made. What kinds of things can people look at to start to educate themselves on things like this and avoid many mistakes?

Dave [00:21:12]:

Well, I think listening to what we're talking about or other interviews that we've had, where people have talked about mistakes that they've made in the past, trying to learn from those, and I think really trying to get a better handle on what the financial products you're trying to use are. Credit cards in and of themselves are not bad. It's the way that we use them is where they can be dangerous to show the exact opposite of what

I'm talking about. My brother in law is very financially, fiscally conservative, very put together, very orderly. And the way he does it is he has an American Express card that he puts all of their bills on, including all their daily spending, like groceries and things like that. So he and my sister have a joint card, and they pay all that, but he budgets it very tightly. And so at the end of the month, he pays it all off at the end of the month, so it doesn't carry a balance. And what that does is it allows him to build up credit.

Dave [00:22:07]:

It also allows him to build up credit because he's used a card, when it's reporting to the credit agencies, it shows a balance of near zero. And so that helps boost his credit score. But then he's also getting all those rewards, all those points, and then he can use those. They can use those for trips, for airfare or for hotels or different things that they want to do as a family. And so it's a brilliant idea. And if you're disciplined enough to do it that way, a credit card can be a huge weapon to help you maximize your financial returns. So in and of itself, they aren't necessarily bad. It's just how we use them and how we aren't taught to use them.

Dave [00:22:50]:

And so understanding what it is you're getting into when you open a credit card and how are the payments, how does your credit work, understanding what it is when I take out a car loan, what does that mean? What are my responsibilities? How long is this loan for? How much interest am I going to owe over the course of so how much is the car really going to cost? It's not going to cost $30,000. It's going to cost 30,000 plus whatever interest the bank is giving you to allow you to drive that car off the lot. How much is that going to overall cost? And then you can try to determine if is it really worth it or not. So anyway, those are some of the ways, I guess I would suggest people think about it. What about you?

Andrew [00:23:30]:

I'll just give a shameless plug because we've been working on a project with a couple of our friends who are also in the finance space. And it's based on this idea of trying to share this important financial literacy lessons that we don't get in school. And I guess what's tough about it is, unless you're somehow stumble into being a finance geek, it's highly unlikely that you start as soon as a lot of people want to start. I think there are ways that you can help other people that are early on in the journey and give them a hand up. And that's kind of what we were trying to do with one of these products that we just released. So it's called financialbirds and bees. You can find it@financialbirdsbees.com. And the idea is information and accountability for somebody.

Andrew [00:24:21]:

So if I were to buy this for my cousin, my younger cousin, it would give my cousin the information, as well as accountability and access to Q and A. With Dave and I to be able to figure out how can I get my 401k started, how can I make these other basic, simple, but important financial decisions that can set me up later on in life. So ten years later, I'm not looking back and being like, man, you cost me this many hours of work and this many hours of stress and just start to try to hopefully build better futures for people.

Dave [00:24:56]:

Yeah, exactly. I think the idea of trying to start from zero, which most of us do, I love my family to death, but they taught me little to nothing about money or finance, and we just didn't have quite a bit older, so we didn't have the Internet, and we didn't have those resources to help learn. Just we're kind of thrown out into the wild and had to learn it on your own. And like I said, when I started working for Wells Fargo, I never had a 401K before, and so I didn't know what one was, and they weren't able to give me any guidance or any information, and it was really frustrating. And I think something like this can really help set people on the right path to really start building a financial foundation for their financial freedom. And like you said, the sooner you can start, the better. And a lot of us are in a position. I read somewhere the other day that 68% of all working people have access to a 401 of some variety, way, shape, or form, but only 35% of them actually contribute to them, which is kind of an abysmally low number.

Dave [00:26:07]:

And I would hazard to guess that it's probably a lot of it is due to lack of knowledge. They just don't understand what they are and how much they can benefit them. And I think our product that we created, the Financial Birds of Bees, can really help start people on the right path.

Andrew [00:26:24]:

Yeah, I mean, for me, I was a similar situation as. You. My parents taught me really good basics about money, like you got to work hard for your money, stuff like that. But I didn't get any of the I don't know if you call it jargon or just the practical workings because the finance world changes and there's all these acronyms and letters and blah, blah, blah. I just wasn't taught that. But I was fortunate that somebody at my job took the initiative, reached out to me and got me in the game. And so our hope is that everybody's busy and it's tough, but we all have people we care about. You can give them this financial birds and bees plan and it could be a great way to get them jump started.

Andrew [00:27:04]:

And we've created it to be as low effort as possible and hopefully get people educated and get them on the right path. So again, it's financialbirdsbees.com. This is not going to be the last time we're going to talk about it, but I recommend checking it out if that interests you.

Dave [00:27:19]:

Totally agree.

Andrew [00:27:20]:

All right, folks.

Dave [00:27:22]:

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 five star review, it greatly helps our show. And don't forget to browse the incredible moment materials we created for you. Envestingforbeganners.com. Lastly, 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.

Dave [00:27:48]:

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.

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.