THE INVESTING FOR BEGINNERS PODCAST

IFB313: Deciding How to Invest - Balancing Risk and Return with Your $10,000

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Dave [00:00:00]:

All right, folks, welcome to Investing for Beginners podcast. Today we have episode 313. We got three great listener questions we're going to answer, but before we do that, I wanted to throw this out there. If you guys have any burning questions that you're dying to have us talk about on the podcast, please don't hesitate to send them to us. You can send them to us at newsletter@envestingforbeganners.com. That's newsletter@envestingforbeganners.com. Please don't do this. If you are driving, driving heavy machinery, doing brain surgery, playing golf, please do this.

Dave [00:00:34]:

If you're sitting down, listening to the show, or you're at work not supposed to be listening to the show and doing something else anyway, please, if you have any questions, please do not hesitate to send them to us. We'd love to answer them for you on the air. So, with that said, let's go ahead and dive into the first question. We got this really good one from Lisa says, hi, Dave and Andrew. I recently started listening to your podcast and to be honest, I don't know anything about investing. I have a Roth IRA account that I opened and have a largeish sum of money in there, but have been paralyzed as to what to invest in. So I literally sat there for a year doing nothing. I love the idea of making a regular monthly contribution and plan on starting this with your Value Spotlight.

Dave [00:01:13]:

My question is this what would I do with the existing 10,000? I initially thought of putting it in an index fund, but wonder if it makes more sense to use it towards the Value Spotlight picks as well. I am 50 and I'm quite late to the investing game, but don't want to waste any more time. Thank you for your help and explaining investing in terms that I can actually understand. The free ebook download is super helpful. So this is again from Lisa. This is a great question and Andrew, I'm going to turn over to you for First Stab.

Andrew [00:01:39]:

So we actually feel like we've gotten this question a lot and ended up getting together with our buddies Chris and Evan and made a resource that people can use to answer this for themselves. Because to me, the answer would depend on your goals, your risk tolerance, where you are as an investor, all those things. So maybe you want to talk about that resource and how people can find it and then how they can start to think about the answers themselves.

Dave [00:02:09]:

Yeah, for sure. So if you go to Financialbirdsbees.com, that's all one word. There is a link on there that says Lump sum calculator and you can use that to help you walk you through some of the risk tolerances, some of your goals, how much money you have to start, all those kinds of things. And it can give you kind of a guideline to help you figure out what's the best way to get started for you. Unfortunately, with financial advice. Not that we're giving financial advice, but talking through finances with people, it all comes down to personal finance and what you may be able to tolerate and what Andrew may be able tolerate and what I may be able tolerate are all three different things. We all may have similarities to there, but it's going to be different for every single person. Not to put the old beagle depends on the question, but it really does depend.

Dave [00:03:06]:

And I think you have to decide for yourself what you can tolerate and how much volatility you can stand and what you can sleep well with Night and what you feel comfortable buying. And I think once you start to answer those questions for yourself, then you can start getting into the nitty gritty of whether how much do I want to put in this? How much do I want to put in this, how often do I want to contribute all those things. Depending on your financial situation, some people may be able to do it every week depending on how they split up their paychecks. Some people get paid once a month, some people get paid semiannually. If you're on sales, you may get paid one month or two months and not get paid for three more months. So you have to budget your money out longer. There's just a lot of different ways to slice the pie. And so I think it really comes down to really what you're comfortable with.

Dave [00:03:55]:

And the financial calculator again at Financialbirdsandbees, not Anne, sorry, Financialbirdsbees.com. And there's a lump sum calculator on there that can help you. It's free, it's super easy to fill out. I think there's six questions on there. There's four questions on there. You plug the four questions in, it'll give you an answer very easily. So I guess would be my thought. Now, Andrew, if you were Lisa and not to give her advice, but maybe what would you do if you were in her situation?

Andrew [00:04:24]:

I look at it as how involved do you want to be? And that's part of the question that the calculator will ask you is I think time horizon is important. For example, I was talking with a gentleman last night who I got connected with and he said my time horizon realistically is five to ten years. And so I basically said, realistically, stocks are not for you for that purpose because the stock market is volatile in the short term. So to me I think the big question it sounds like Lisa's bought into stocks, sounds like she has a long enough time horizon where that makes sense to me. The question is do I want to do it in index funds or do I want to pick individual stocks and then do I want to do it all at once or do I want to spread it out over time? And I think there are a couple of questions somebody could ask themselves to maybe point themselves in the direction of do I want to try to buy individual stocks or do I want to do an index fund?

Dave [00:05:19]:

Yeah, that's very similar to the advice I would stick with really decide how long is your time horizon, what kinds of things are you comfortable buying? The question of how much time do you want to put in buying individual stocks is not something that you can do in a five minute discussion. If you want to buy Google and really understand how it works and decide whether it is a good investment for you, you need to spend more time than just reading about it on your way to work. You need to spend time thinking about the company, what you can learn about it, and whether or not it would be a good investment for you. And all that takes time to research the company, to read through the financial reports, and to think through some of the ramifications of doing the company. And if it's something you super enjoy and you really like it, then I encourage you to go for it and do it. But I guess the point I'm trying to make is that it's not really something you can do haphazardly. You have to do it with the full intention of trying to buy that particular company. And so once you have those kinds of questions answered, then you can decide how you want to invest the money and if you want to do you don't have to do it all.

Dave [00:06:25]:

Or one, you can do some index funds if you want and you can do some stocks if you want. You can alternate months, I mean, there's lots of different ways you can slice the pie to try to get to where you want to go. But again, that lump sum calculator can really help you answer those important questions before you really dig into whether or not you should buy Arm with a new IPO or Microsoft. And I think once you kind of understand what it is you want to do, I think it's a lot easier to make the decision of where to go. I personally, if I had this decision to make, I probably would put some of the money in an index fund and some in individual stocks, but I wouldn't go hog wild and spend all $10,000 up front. I would probably allocate a portion of it every month, maybe over six months to a year to give me time to learn what it is that I want to do, how much I really want to do this. And you may start out thinking, hey, I really want to buy individual stocks and then after time you might decide that that may not be the thing that you want to do and you may want would be stick to index funds, which is a great way to invest. So I think it really comes down to what your preference is.

Dave [00:07:37]:

But I would split it up, that would make it easier, because, as we said in the past, trying to find 15 to 20 great ideas in one month is near impossible. So if you can do it, then you're way better than me. So that's, I guess, how I would probably try to go. All right, so let's move on to the next question. So this is a great one, too. Which book would you recommend for a starter? And this is from Julia. So, Andrew, what book would you recommend for absolute beginner?

Andrew [00:08:04]:

I'm going to throw one out there. I like to give a different answer every time I get this question. The richest man in Babylon. By George, clayson. I think it is.

Dave [00:08:14]:

Yeah, I think you're right. Yeah.

Andrew [00:08:16]:

So I think for a lot of people, it's not even how good of an investor you are, it's how much money can you put into it? And I think sometimes some people underestimate how much money they can actually put into investing. And I think investing in personal finance mindset books like The Richest Man in Babylon, that to me, was like a paradigm shift. It was like, wow, okay, I've been thinking about money wrong. This is a good way to think about money. And if you can get your habits in order, I think that can have a huge force multiplier in your results.

Dave [00:08:51]:

Yeah, for sure. That's a fantastic book. We haven't talked about that one for quite some time, but I think that's a great one to start with. I guess I'm going to go with one of our favorites from William Green, richer, Wiser, and Happier. I think that is probably one of the easiest, most illustrative, fantastic books about mindsets of some of the best investors in the world. And it really shows that we're all human. And what drives these people to become great investors is not always most of the time, it's not actually about becoming wealthy. There's other things that drive them to do what they do, and a lot of it comes back to they really enjoy what they're doing.

Dave [00:09:33]:

But I think the great thing is that it shows that there's lots of different ways to invest, and there's not just one way and not one way is the best way. It's really about finding what's the best way for you. And William does a great job of pulling these great stories out of all these fabulous investors. And he interviews some of the top investors. A lot of them you probably are not familiar with, guys like Guy Spear. And actually Guy's not in the book, is he? Yeah. Monish Brobrai is in the book. Tom Gaynor is in the book.

Dave [00:10:05]:

Joel Greenblatt is in the book. Joel Greenblatt's probably a bigger name, but Charlie Munger is in the book. But a lot of the investors that are in there are not big famous names out in the world of investing, but they're all fabulous investors, have had a lot of success in their life. And even though Guy Spear is not in the book, he co wrote the Education of a Value Investor with Guy Spear, William did years ago. And that was like one of my first books. And that's a fantastic book as well. But the book I'm talking about, I think is a great place to start. Gives you a lot of great mindset, ideas to think about, and just realizing that becoming fabulously wealthy is maybe not always the best goal, but if you have a different way to go about doing it, it may not work for everybody, but it will work for you.

Dave [00:10:47]:

And I think I love the book. I've read it twice and we've been lucky enough to interview William a couple of times and he's very clear writer and yeah, he tells great stories. Super easy to read.

Andrew [00:10:58]:

Yeah, I think if you're like an aspiring fund manager, that should be yeah, yeah, absolutely.

Dave [00:11:05]:

Absolutely. Yep. I agree. All right, so moving on to the last question. So we have hi, fellas. Started listening to your podcast over a year ago, perhaps two years now, and really enjoyed it. I'm a high school teacher and this year I plan on creating a financial literacy group for our students. One of the things I want to include in this group session is a way for them to practice investing using play money.

Dave [00:11:28]:

There are many different options out there. Could you please suggest one that you think would be good for Canadian students to use that allows them to buy both stocks, bonds and ETFs? Thanks for your time, Ben. So, Ben, this is a great question and truthfully, this is the game I got out of a while ago. But when I first started investing many moons ago, that was something that I definitely did. You hear some people refer to this as paper trading and it's a great way to practice investing. The website gives you monopoly money, or fake money, if you will, that allows you to do different investments and to see how it works. The other cool thing about it is, particularly with the one I'm going to recommend, is it shows you how to open an account and it shows you kind of the ins and outs of how to trade the account. In other words, all the different options you have to buy an investment or sell an investment.

Dave [00:12:23]:

And so it can help take away some of the scaries when you go to invest because that's one of the things that most people are like, I don't know how to do this. I still remember that butterfly feeling, am I doing this right? Am I doing this right? And so to kind of cut to the chase, the website I'm talking about is Questrade. Now, this is a very popular do it yourself investor trading platform in Canada, and I think they offer some of the lowest fees, if not no fees. I'm not sure about that for sure but they do offer a 90 day trading platform which allows you to get comfortable with how Questrade works and it also gives you a million dollars that you can use, again, play money to go out and buy Canadian companies. Now you can buy both, you can buy companies on the Canadian market and you can buy companies on the American market as well. The cool thing about it is it gives you live prices for everything on the TSX, which is the Canadian market up there, and that allows you to see how your trades are doing. And if you're one of those people that it wants to trade in and out of companies which Andrew and I do not recommend, but if that's something you do want to look into, it allows you to see how your trades would or would not do. And to get a sense, if you really decide that I got to be a day trader, you got 90 days to see how good you're not going to do.

Dave [00:13:46]:

But the great thing about it is it's free and it allows you to really get your feet wet with how to invest, the mechanics of investing and also to be able to track your trades and to see how well you do with buying and selling companies. And so I used it not this particular platform, but I used several platforms like this when I first got into investing, because I was curious how this would all work and how quickly or you could see ups and downs of companies. And it sometimes can be a little shocking. And so it's really good to help you get a sense of how much the up and down can really impact you, your stomach and your mental state of mind. Because most of the time when I buy a company, it always seems to go down right away. And so that just seems to be my particular curse, if you will. But that's something that I learned doesn't bother me and so that's something that I learned from the paper trading accounts that I could handle it's irritating for sure, but it didn't cause me to react one way or the other, which I thought was very helpful. So for those of you who think that this sounds cool, if you go to Charles Schwab they have a virtual paper trading account as well that you can set up and it's free.

Dave [00:15:00]:

You don't have to set up a brokerage account with Schwab. You can just sign in and create your own paper trading account and you can do all the same things and I think it starts with a million dollars as well. Again, play money. Sorry, folks, but it's a great way to start. And I really encourage people that have never really

Done this kind of Thing to kind of maybe step into this as a way to get Some practice and Maybe get over the Scaries. Opening Your First Account With Fidelity or Schwab or Questrade and Buying Your First Company because It's A Big, Scary So.

Andrew [00:15:30]:

Let'S say you were talking to Ben's star pupil in his high school, know he's all about it. He traded his way to $2 million from $1 million on this Quest trade game. What kind of advice would you give that star pupil for his investing lifetime?

Dave [00:15:49]:

Well, if he's been able to double his money in three months, I probably should be asking him what he did and trying to replicate that myself because I think probably some of the advice I would give the star student or the star pupil would be, what did you learn from this experience? Try to think of some of the things you did right and try to think of some of the things you did wrong and try to analyze why you think those happened. Why did buying Constellation software turn out so great and then maybe buying Enbridge, which is a utility like company, not do so great? You may have thought going in that, hey, these are both great investments, but why did one do so well and why did the other one not do so well? And I think if you think about those answers then that can start to become something that you can replicate for future analysis in the future. And a lot of times, frankly, you're going to learn more from your mistakes than you are from your successes. Because one thing we have to take into account in investing is there is a portion of luck involved. Sometimes you can kick a company at the right time. Sometimes it's on an upswing, there's just momentum could be propelling it forward and there's no information but it's still going up kind of thing. So there's lots of things you can learn. But I think the one thing I would try to replicate would be why did this one do well and why did this one not do well? And I think if you can figure those out, then that's going to help you go a long, long ways in investing.

Andrew [00:17:23]:

That's a good one. What would be the next step for this star pupil?

Dave [00:17:26]:

The next step would be to on day 91 is to actually open your Questrade account and deposit some money in there and buy your first company. It doesn't have to be the one that did the best for you in the paper trading account. It could be something completely different if you want. But buy one stock, buy one put skin in the game. Buy one company and then analyze it, sit on it for 30 days, think about how it's doing. Look at it five or six times a day like everybody will, and obsess about how great this is or how horrible this is. And try to think about what are you feeling? A thing I would do would be to write down in my journal, my investing journal, why did I buy this company? Where do I think the company is going to go? What are the reasons that drove me to buy it? And then as you're looking at it five or six times a day, write down your emotions when you look at it. If I look at it at ten five and it's up and I feel terrible, and if I look at it 1137 and it's down, I feel awful as well.

Dave [00:18:31]:

Just whatever emotions you're feeling whenever you look at it, try to write those down. And then at the end of 30 days, go back and kind of assess how's my stomach feeling. Did I have to take a lot of tums during the month or did I not? And that will help you decide, is this something I want to continue to keep doing? Would index funds be the way I'd really want to go? And if you can handle the volatility and you like the research of picking companies, then keep going with it. And if you decide after 30 days, maybe this isn't either more than I thought it would be, or I can't handle the ups and downs, then you can go with index funds and you can ride that train all the way to your million.

Andrew [00:19:10]:

I think for different levels of investors, depending on your I don't know if you'll call it skill level, experience, whatever it is, the depth of analysis or the way you analyze a stock might look differently. So for somebody who's maybe first getting on that train, do you think there's a particular way that analysis can look, or do you think it's going to be different for everybody?

Dave [00:19:34]:

That's a really good question. Well, if I think back on my early stock tribulations, I would say that my first forays were not as deep as they needed to be. And so that was something that I learned from not understanding what the business did and not truly understanding how they make money and what are their future prospects or the risks involved with investing in that company. And I think if you can get your hands around those kinds of ideas, then I think it becomes easier. But I think it becomes a little more clear on maybe what this company should be or what this company should be and whether I should choose A or B or even C. But I think at first it's going to be a little bit like stepping into the waiting pool. The first time you go swimming, you're going to get your feet wet, and you may even get your ankles and maybe your knees, depending on how tall you are and how deep the pool is. You may get a little bit, but it's not like diving into the deep end of the pool.

Dave [00:20:39]:

And so I think you won't really understand what it is that Constellation Software does, for example, until you really dive into it and sometimes that takes losing money in the company to really dig in. If you buy your first company and does really well right out the gate, you might not dig as deep as you need to. And I was lucky in a way that my first pick was Microsoft and it did great and has continued to do well. But the next two that I bought were dogs and so that caused me to go, okay, this isn't going to be easy and I need to start figuring out why these two were dogs. And this one was that's. I think as you get more experience, the depth of what you learn and what you retain about companies will get broader and broader. And I think that's what's great about keeping a journal of some sort is that you will see that in your writing. You'll see that, hey, I bought Microsoft because I love Microsoft Windows, or I think their logo is mean.

Dave [00:21:43]:

It could be that depth of analysis. Right. And then as you get more into it, you could learn that, hey, they got a subscription based business and Windows is one of the most popular operating systems in the world and people will gladly pay a subscription to keep using these services and all those kinds of things. It gets deeper and deeper as you go. And I think that's what I would probably try to tell people is at first it's not going to be that deep. And even if you have some experience, you're still going to get better. The more you do it, the more reps you put in. I saw this great tweet from John Rotanti.

Dave [00:22:15]:

He said, weightlifting and investing are very similar in weightlifting. The only way to get better is to put it in the reps. And investing is exactly the same. The only way to get better at analysis is to do more of it. And so you have to put in the reps. And I think once you start putting in the reps, then you'll get better at it.

Andrew [00:22:33]:

I think that's wonderful advice.

Dave [00:22:35]:

Yeah. The quote from John I saw today, I was like, yeah, that's awesome.

Andrew [00:22:39]:

It is cool to see that progression. I think when you notice people who tend to write online and post their ideas, whether it's Twitter or Substac or whatever it is, you can almost see that progression and it's only natural that you have to go through that. Nobody's born Warren Buffett.

Dave [00:22:56]:

No, no, unfortunately none of us are, that's for sure. I would like to throw this out there. That idea of writing things down, I think is so powerful and you don't have to publish what you write. I think it's better if you do. And the thing is that I think a lot of people are afraid that they're going to be they have an impostor syndrome, which I struggle with on a day to day basis. And I think the more that you put it out there, the more you can overcome that fear and realize that we're all learning, and we're all at different stages of our learning, and most people will be very kind and will help you. You will have some jerks out there, there's no doubt about that. But most people will be willing to help you and give you a hand up.

Dave [00:23:43]:

And if you don't understand something, it's okay to ask, hey, I don't understand something. I asked Andrew the other day, I don't get this relationship between these two things, and he didn't chide me for being, what are you? You know, he explained it to me, and now I have a better grasp on it. And I think the idea of writing I'm not sure where I read this or who said it exactly, but I think better when I write, and writing is a great way to help you think better. And if you put it out there in public, whether it's on Twitter, whether it's on Seeking Alpha, you create your own blog, you write on medium. There's a million different places you can write instagram, TikTok, however you want to express yourself. I think the more that you put those ideas out there, the more that's going to help you realize, okay, I know this, and I don't know this, and that's how you get better.

Andrew [00:24:34]:

Yeah. Morgan Housel had a great piece about writing very recently. I don't know if he said it or if I thought it or if I read it from Maybe and then.

Dave [00:24:43]:

Thought it somebody else.

Andrew [00:24:45]:

That's how it goes, right? You read it, and then you forget that you read it, and then you think it's your own original thought.

Dave [00:24:51]:

Right.

Andrew [00:24:52]:

I think it was either Morgan Hazel or the guys at Farnham Street saying.

Dave [00:24:56]:

How Shane Parrish yeah, Shane Parrish write.

Andrew [00:24:59]:

For you know, obviously we all go to school. We're given writing projects and stuff, and so writing is almost associated with this thing I have to do. But it's interesting when if you've never tried it, try just writing for yourself where you're not necessarily writing to please someone else or have this other objective, but literally writing because you want to record this information and refer it back later. That probably sounds so basic to anybody who has kept a journal, but if you haven't, it could be a very liberating way, and you might be like, hey, I actually am a decent writer when I don't have these arbitrary constraints put on.

Dave [00:25:41]:

Yeah, exactly. How many times have I said that nothing I'm writing is Shakespeare, Hemingway? Yeah. You don't have to be that quality of a writer to put these ideas out there. And the other thing that's cool about writing, whatever medium or however you try to produce it, is it helps you understand things you may not understand, because when you have to put it out there in public or when you force yourself to put it out. There in public. Most people want to know that when I'm putting it out there, what I'm telling you is true, and it's right. And so that forces you to really understand the concept before you put it out there. And that's one of the things that I find most powerful about writing, especially in public, is that it forces you to make sure I know what I'm talking about.

Dave [00:26:29]:

And it's okay to make mistakes. And I'm not saying you won't make mistakes. I've made mistakes plenty of times. But I think that will make you a better investor in the long run, because it helps you understand the concepts of the difference between ROIC and WAC, for example, or why do we do DCFS? Those are just two simple examples. But once you understand those correlations, then it becomes a lot easier to write about them, and you become a better investor because you've understood them, and the writing forces you to crystallize the idea.

Andrew [00:26:59]:

Yeah, super good advice.

Dave [00:27:02]:

All right, everyone. 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 materials we've created for you@einvestingforbeganners.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'll go ahead and sign us off.

Dave [00:27:30]:

You guys go out there and invest with the margin of safety. Emphasis on the safety. Have a great week, and we'll talk to you all next week. Bye.