IFB 309 - Listener Q&A: Investing for Beginners: How to Make the Most of Your $100 Investment

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Dave [00:00:00]:

All right, folks, welcome to Investing for Beginners podcast. Today we have episode 309. Today we have two great listener questions. We're going to go ahead and read and answer here. So without any further ado, let's go ahead and dive on in. Here we go. When investing with platforms like Robinhood, how much should you invest if you have less than $100 to get good returns? So, Andrew, I'm going to let you take a first stab at this very intriguing question.

Andrew [00:00:23]:

Thank you, Mr. Dave. I think our intriguing questionnaire is not going to like my answer because I'm going to say it's not going to happen. You're going to need more than $100 to make decent amount of wealth in the stock market. You're going to need that and you're going to need a lot of time. So I've lost everybody now, at this point, the beauty of investing is if you can do, let's say, $100, but if you can do it every month and you keep doing it and doing it and doing it and letting it snowball and snowball and snowball, that's how you'll make wealth in the stock market. So your 1st $100, it's not going to do anything. But if you can develop an investing habit, $100, $150, $200 a month, whatever you can do, you do that over a long enough time.

Andrew [00:01:10]:

As long as you're not buying the worst companies in the world, you're going to do really well if you can do that. But that 1st $100 is not going to make you wealthy. I'm sorry.

Dave [00:01:20]:

No, it isn't. And I think I guess the key word for me here in this question is invest. If you're looking to invest, then everything that Andrew said is the way you kind of have to do it. If you're looking to gamble or if you're looking to speculate or guess, then $100 could make you money. But the chances are slim to none that that's going to happen. And it really comes down to even the people that were really making any kind of money on the meme stocks. They were putting more than $100 in to make the money. They were putting in thousands, if not tens of thousands of dollars to make those millions of dollars of returns, because that's the only way it can compound.

Dave [00:02:05]:

You can't put $100 into AMC and expect to walk away with $15,000 after a couple of days. It just doesn't work that way. The math doesn't work that way. So if you're looking to speculate or gamble, throw your money at the latest crypto coin or whatever, you may get lucky and you may make a couple of $1,000 or something on that, but that's not real wealth over a long period of time. And so I think if you want to invest the money, then starting with $100 is a great place to start. And then, like Andrew said, if you can't afford the $100 every month and you can only afford 50 or 25, you could still do it. And especially with the way the brokerages are set up now, at least here in the United States, and I believe IBKR, the interactive broker one is starting to offer this now too, are partial shares. And so you can buy smaller pieces of a company.

Dave [00:02:57]:

You can buy a smaller piece of Tesla if you want. You don't have to pay the $250 it's going for to buy one share. You can buy a quarter of a share and you can gradually build up to one share if you want to. But if you consistently put money in the market, even if it's $25 a month at the end of the year, that's $300 that you've invested in the stock market. If you do that over the next few years and then as your income situation improves or your debt situation improves, you can add more to that. And it just can like Andrew said, you can snowball on top of that. And my favorite phrase, the water dripping on stone eventually makes an impression that's the way it works in the stock market is continually putting good money in in good companies and over a long period of time you'll be successful. If you want to make $20,000 off $100, I don't know that there's any way to do that.

Andrew [00:03:45]:

Sorry. No. And even if you do, can you at least recognize that it's like a once in a lifetime kind of thing? So GameStop is like a once in a lifetime kind of thing, right? So then it's like, let's say you do hit the GameStop. What do you do next? You got to wait another lifetime until you get another opportunity. Like, know what we're talking about? Sustainable. It's something everybody could do. You can do it over your lifetime. You don't have to have some once in a lifetime opportunity come your way.

Andrew [00:04:13]:

You can plant enough seeds and one of those hey, who knows? Maybe one of those will be like the next Tesla or something. But it's not going to be that that got you wealthy. It's going to be the habits that you established to put yourself in those situations.

Dave [00:04:26]:

Yeah, exactly. And understand that when you're investing, not every company is going to go to the moon. They won't be winners. And it's part of the game. And there are going to be times where you think a company A is the greatest thing ever and the stock market completely disagrees with you. And it will happen, and it's part of the game and you have to understand it, and you just have to move on and keep consistently adding money to the market because that's how you'll get the good returns you will find clunkers once in a while. It happens to all of us. Certainly happened to me.

Dave [00:04:57]:

And I know it's happened to Buffett. And I know it's happened to Joel Greenblatt and Tom Gaynor and Guy Spear. Andrew and just on and on and on. It happens to all of us and it's part of the game. Don't get discouraged. Keep doing what you're doing because it just takes one or two companies to do really well for you to do really well over a long period of time. And even if three or four of the other ones in your portfolio are just good, not great, that's still getting you where you want to go. So it's a combination of things, but the most important part is to stay with it, to stay consistent.

Dave [00:05:32]:

Like Andrew said, build habits and those habits will make you wealthy over time.

Andrew [00:05:36]:

How would you invest $100 if you were starting over?

Dave [00:05:39]:

OOH that's a good question. How would I I would probably do the same thing I did, that I started. I opened a brokerage account and I bought the company that I felt like was something new, something about in other words, I used the product. So for me it was Microsoft because I use Microsoft Word and Excel every day at work. And so it just made sense to buy Microsoft. Not because I thought it was the greatest company ever or that I knew it was going to be amazing. I didn't. And I just knew that I used a product and Peter Lynch has talked about it and that phrase has been analyzed every way from today till Sunday about what he really meant to buy it, but he know, buy what you know.

Dave [00:06:22]:

And you could take that a million different ways. But the way I took it was to buy something I used because that would give me some familiarity with what I was investing in. And if you go to Starbucks every day or if you have 17 pairs of Nikes in your closet and that's the only shoe you wear, then I think those would be great choices. I don't think there's any wrong way to go because you don't know what you don't know until you do it. And I think skin in a game is probably the best thing to have at that point because then it becomes real and then you really pay attention to what it is that you own. And I guess that's how I would do it. What about you?

Andrew [00:06:59]:

I'd buy $100. Apple? Yeah, I'm biased. I have apple. I'm an investor in Apple today.

Dave [00:07:06]:

But you're a big fan of the products too.

Andrew [00:07:08]:

I'm a big fan of the products. I mean, even my first stock was also Microsoft back in 2012. But I was poking around on the stocks app on an Apple iPhone. Right. It's interesting, like there's just a few products. Microsoft Word and Excel is a good example. Apple iPhone is a good example that just have seemed to stand the test of time. We'll see.

Andrew [00:07:30]:

I mean, we're talking about what, a decade? It's not too long, but it's just interesting. That Coca Cola, it's been around since 1920, and before even that.

Dave [00:07:40]:

Right.

Andrew [00:07:40]:

So those kind of companies, I think, are really fun to invest in.

Dave [00:07:44]:

Yeah, I agree. I think it makes it interesting because they're exciting companies in a certain way, and they have good reputations out in the marketplace. These are businesses that people like the products and they like the management. And from all reports, people enjoy working for those companies, too. And so you have a good feeling about it when you buy it. And I think that makes a lot of sense.

Andrew [00:08:09]:

Yeah, totally.

Dave [00:08:11]:

That's how I would approach it anyway.

Andrew [00:08:13]:

I would say about the skin in the game thing, too. If you don't believe us about skin in the game, because we're recording this. It's opening kickoff tonight. Right. If you think that skin in the game doesn't matter and you have a fancy football team and you care about your fancy football team, then you're lying. Skin in the game matters. It makes you pay attention to what you have. And that's why just putting money in the market will teach you a lot.

Andrew [00:08:37]:

That just observing it from the Bleachers won't, right?

Dave [00:08:41]:

Yeah, that's exactly right. I have noticed since I haven't done fantasy baseball for the last few years, that I pay far less attention to individual players than I used to, and I pay more attention to the teams per se. And so sometimes I will be watching a game and I'll see a stat of some player that I may have had on my fantasy team a few years ago. I'm like, wow, they're doing amazing. And I had no idea because I'm not paying attention that minutely to that particular player because maybe he's on a team I don't follow, or maybe they're not in a playoff race anymore and so I'm not really paying attention. So, yeah, it definitely makes an imprint an impact.

Andrew [00:09:19]:

Well, think about when people maybe that don't have skin in the game. Think about the stock market. They think about what's the economy doing, what's the Fed doing, all these kind of bigger picture things. Whereas if you have skin in the game, you kind of know that Apple is going to sell iPhones next quarter regardless of if we're in a recession or not, right.

Dave [00:09:38]:

Or the holiday season coming up, and Shopify and Amazon are going to be really busy during that period of time. Walmart, too.

Andrew [00:09:46]:

It gives you a completely different way to view the world around you when you have that skin in the game. Did I say you should have skin in the game? I don't know if I said.

Dave [00:09:54]:

Yeah, I think you did. Yes, you should have skin in the game. All right, let's move on to the next question. So we got hello, guys. Love the podcast. I've been listening to the podcast just over two years now. I learned something new every episode. Keep up the good work.

Dave [00:10:10]:

One thing that's been on my mind is air, quote, time in the market, as opposed to air, quote, timing the market. If you purchase shares in a company which does not pay dividends, then is time in the market as relevant as it's made out? Assuming the market resets every once in a while, then isn't there a possibility that you would return nothing in case? Should you be checking your portfolio daily and be ready to sell if there are signs of a market reset, potentially you may have held the stock for just a few days. And this question's from Mick and I think this is a really interesting question.

Andrew [00:10:39]:

I appreciate the introspection here, Mick, because you can tell this is very thoughtful way to think about buying stocks. And it makes a lot of sense, logically, and I think a lot of things do in the market that make a lot of sense when you start going down that path. Like this idea. They're like, I'm going to wait until the stock rebounds before I sell, because I'm not going to lock in a loss or I'm going to put a trailing stop on my positions. And once the stock goes down 2% or 5% or 10%, and then I'm going to get out so that my losses are limited. These are all ways of thinking about stocks in the stock market that are very logical and make a lot of sense, but they miss the reality that there are businesses underneath these stocks. So when I buy

Apple or Visa or Target, I'm not just buying their ticker symbols and the way that their stocks move up or down. I'm buying those businesses.

Andrew [00:11:36]:

And the changes in those businesses will affect how my stocks do over the long term. So what stock pickers are trying to do is figure out which businesses are going to do the best over the next 510 years. That's a completely different conversation than trying to kind of play a market timing game or trying to say, hey, I'm going to never lose or I'm going to never have a huge loss. It's very hard, very hard thing to do. For example, if I was to go try to find a new job somewhere, would I go into it saying, I'm going to try to find a company that never lays anybody off? It can be done. And it probably happens a lot, but sometimes it just happens, right? And a company was strong, and it's no longer strong. So in the same token, when you buy a stock, you're buying partial ownership of businesses. So businesses might get worse over time, and it does happen.

Andrew [00:12:25]:

And so you don't want to get in this mindset that every stock I'm going to buy is going to give me a return, or I'm going to worry about the possibility that this stock I buy is going to return me nothing. That's part of the game. And I think the opportunity is in reframing. The way you're looking at the stock market, less so about did the stock go up 10% or did it go down 10%? But more so did I get in a good business that I feel like is going to grow over a long time? And that's where time in the market works its magic. Not so much on the stock price part, but on the fact that you're buying businesses that are growing over time.

Dave [00:13:05]:

I agree with that. I think the focus on the business part of it and the fact that you're buying a business and when you're doing your work or your analysis to discover companies that you want to buy, that's part of the equation you have to factor in is the product or service that they're offering. Is that relevant now, and do you think that that's going to be relevant in the future? And if it is relevant now, what is the likelihood that that will be relevant again in the future? And if you find companies that have products and services that are relevant and will continue to be relevant going forward, then you're going to see ebbs and flows in the market, because companies will go in and out of favor, sectors will go in and out of favor. But over the long term, Intuit's tax accounting software is going to remain most likely relevant. And so if you think the product that they offer to accountants and businesses is going to remain relevant now and ten years into the future, then that's part of the equation that you have to take into of time in the market as opposed to timing the market. Because you can't always anticipate when there could be a disruption to tax accounting software. For example, nobody saw Apple coming for Nokia, and the speed of which they overtook Nokia is something that's kind of an abnormality that's not normal. But when you're analyzing companies, that's part of the research is not only looking at Intuit's tax accounting software and determining that, yeah, that's a moat, and, yeah, that's a really strong part of their business, and it's a great product for the people that use it on both sides of the aisle, if you will.

Dave [00:14:46]:

So you also have to look at what's potential competition to that and how likely is it that that competition is going to overtake what Intuit is doing now. And that's part of the analysis, and it all goes into the time in the market and how long you're going to hold this company. The ideal holding period is forever, but the reality is that that's not always going to happen. There are things that are going to come along that management may change. Warren Buffett and Charlie Munger are not going to run Berkshire forever. And when there is a change, those are all things that everybody will have to assess, because the new managers may decide that they want to run the company differently. They may run it exactly the same as Warren and Charlie did, albeit maybe not quite as brilliantly, but they may run it the same way, and the company will kind of continue on. They may decide, you know what, we want to know chess and checkerboards and pizza and that's.

Dave [00:15:39]:

Then, you know, then everybody has to make the decision at that point. But I guess my point is that when you're investing, you really have to understand that you're buying piece of a business and that the only way that you can benefit from that is by time in the market as opposed to trying to time the market. Because none of us know when the bottom of something is going to happen or the top of something is going to happen. But if you learn nothing else from listening to us talk is think about some of the richest people in the world have all owned businesses now and in history. They've all owned a business, whether it's through stock ownership or whether it's actually owning a business. They've all owned a business, and they've all owned it for a long time. It wasn't something that they bought once, and then in two years, they turned it, they flipped it, and they made tens of billions of dollars, made them the richest person in the world, and then they never did anything else in their lifetime. I can't think of anything off history.

Dave [00:16:38]:

If there's something out there that I've missed, please let me know or name it off. Yeah. Well, how did that work out for him and his family? Not so great, but yeah, you make a good point. Yeah, so I guess my point with all this is that, like Andrew said, you're coming at this from a very introspective point of view, which I think is amazing, and it's an awesome question. It's, frankly something I probably wouldn't have ever really you know, if you just hold the stock for a few days and you do that a lot, that's not a way to invest, at least not the way that I think is a good way to invest. A, there's so much time involved, and there's a lot of work that goes into understanding that the company has turned or something has turned. And if it's turned in a few days, you should have been able to pick that up a couple of days ago. Apple taking over Nokia didn't happen in a few days.

Dave [00:17:28]:

It took a year or two for that to all happen. I mean, in business terms, that's quick, but in stock market in a few days, that's not quick. So there are going to be times where Netflix is going to fall 25% in a day, where Ajin. Is going to fall 40% in a day. It's part of investing in the market, and that's the stuff you have to deal with. And Berkshire Hathaway has had 50% drawdowns at least three times since Buffett and Munger have owned it. And I would hazard to say that the fundamentals of the company probably didn't change that much. So during those drawdowns, it was just more of the whole tide was going out and so everybody's boat fell.

Dave [00:18:06]:

I think that's kind of the way I would look at it, I guess. Did you have any other thoughts on.

Andrew [00:18:10]:

I would just say try to think of it like this. Right before the eight nine crash, we had a lot of people buying homes, like a ton of people, like way more than people usually would. So there was probably a lot more money that maybe would have gone to the stock market that went towards homes, for example. And then during the pandemic we had a lot of money flowing to other things that crypto NFTs and stuff that wasn't going to the market. But then a lot of times through history, it was more normal, whatever normal is, where maybe there was more money flowing into the market and sometimes when there's not. So what I'm trying to say is the market can move so much in the short term based on really weird or unknown factors that are affecting the flow of a lot of money. And so that's why you might see a company like Visa grow its revenues by 20% and the stock barely moves. And so as the market goes in and out of favor, you get different multiples on stocks and you just get a lot of weird movement, a lot of weird noise in the market.

Andrew [00:19:18]:

But that's all short term. If in ten years Visa is going to grow 10% a year for the next ten years just as many people or more are going to have a Visa card, the economy is going to be that much bigger and more and more people are spending and more transaction volumes going through those networks, then that stock is going to be worth a lot more. Regardless of people are buying a bunch of boats or they're buying a bunch of stocks. It's just in the short term you don't know where people are going to be putting money. So we don't know what those multiples are going to be, but in the long term time in the market works in your favor because if visa is processing more transactions, doing it at higher volumes, their business is worth more at any different multiple. And so you're going to make money on that over a long enough time period.

Dave [00:20:09]:

Yeah, exactly. I think that's perfect. All right folks. Well, with that we will go ahead and wrap up our show for this week. Don't forget to subscribe to our show on your preferred podcast app. If you enjoyed our little show and if you would kindly consider giving us a five star review, it greatly helps our show and don't for get to browse the incredible materials we've 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, I will go ahead and sign us off.

Dave [00:20:40]:

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. Bye.

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.