Building a Diversified Portfolio: Exploring ETFs and Comparing Different Areas with Long-Time Listener Ali

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

Dave [00:00:00]:

All right, folks, welcome to Investing for Beginners podcast. Today we have a very special guest today. We are excited to have Ali join us. Ali is a longtime listener of the podcast and he's newer to investing. He started officially investing in 2021. So this is going to be a fun conversation. We're going to talk about a lot of different things. So Ali, welcome to the show.

Dave [00:00:19]:

Thank you very much for taking time out of your busy day as a doctor to come talk to us. And we're looking forward to this. So I guess maybe give us a brief introduction to you and maybe start telling us a little bit about how you got here and how you started your investing journey.

Ali [00:00:34]:

Yeah, good morning. Thank you guys for having me. It's really a pleasure to finally be here. So, yeah, I guess we could start in when I moved today, as I'm originally from Lebanon, I moved today in 2019. I always had some interest in investing and all that finance stuff, so I started listening to the podcast mostly in 2019, at the end of 2019. And it was a lot of episodes to catch on, but then a lot of I've been still listening weekly since then. It took me a while before having some soul in the game or like skin in the game and starting putting some money due to personal reasons, but mostly to build up the emergency fund, all these stuff that you need to have a good base before you start investing. After that, as you said, in 2021, I moved to my new job.

Ali [00:01:29]:

I had a clear fixed income for the foreseeable future. So I decided to start to open a Roth and start putting money in there. And that's how it all started. I started mostly putting money based on the letter, but also some in ETFs. It depends really on how much extra money I have or not, but mainly through the Roth IRA. After that, I started expanding a bit, trying different stuff like ETFs bonds, mostly ETFs before bonds. Ever since I've been trying to max out my Roth. And then after that, I moved on to my employer, started offering matching for three B.

Ali [00:02:12]:

So I started using that, trying to max on that as well because it's free money that's really, in short, my investing journey. We can talk about all the details, about the distribution, the different weights I use. It's really personalized, so I don't think there's a hard science for that.

Andrew [00:02:32]:

I agree with you. I haven't found it to be a hard science on my side either. Maybe we could start on the waiting. What does your weighting look like? Do you have like a target you try to put for the portfolio? Or has it kind of just organically happened?

Ali [00:02:46]:

I think it's really a mix of both. The letter is based on a 150 per month model and for the Roth now at least this year, you can put 550 per month, so there's a marginal difference. Now, that doesn't mean that the picks are only 20 or 30% of the portfolio. It's actually quite the opposite. I think the picks are 60% to 70% and then the 30% are in either just money, like government funds waiting to be invested, or in ETFs. I mainly use, like, Vo, the VTV and the VTi, so it's really a mix of both. I did not feel there's a major difference between all of them and some in international, really, I don't know the utility of international funds at this point. I feel like I have different ones.

Ali [00:03:40]:

Like one that's focused on Asia, like Pacific, one that's really India based and the one in Europe. But really this time of hyperglobalization, everything is connected. A lot of things are being owed by the same big company, venture cap companies and stuff, so I don't know. They all trend really the same way to an extent. I don't know if it's going to make any difference on the long term or not. Whether you're bullish or bearish on a certain country, I don't know if that's going to really matter. So I would say the weights are like 60 and then 30% in ETFs and of course, like one share of Berkshire, because all investors should donate.

Andrew [00:04:19]:

100%. Do you have plans to go to any other annual meetings?

Ali [00:04:24]:

I definitely plan to I don't know. It's definitely going to be in the next three years. I'm not sure when.

Dave [00:04:31]:

Nice.

Andrew [00:04:31]:

Well, hit us up. I mean, you might see us there. I haven't had a chance to go in a while, but I've been itching to go again.

Dave [00:04:37]:

Yeah, I need to go. It's got to be on my to do list for this coming year.

Ali [00:04:40]:

Yeah.

Andrew [00:04:41]:

So you look at a company like Berkshire and it's almost like they have their own portfolio and they're diversified through different industries. So when we're talking about the 60% of your Roth that's in the picks that I do for Value Spotlight. How do you split those up when you're shaping a portfolio?

Ali [00:05:03]:

Regarding the 60%, when I started, some of the picks were already made in the portfolio. I really don't look at these stuff because there was a specific time that these were bought. It doesn't mean that they're still a good pick per se, but ever since I joined, I tend to mostly go with whatever the pick is. Bar a few examples that I can't really, either for ethical or job related reasons, I can't really invest in them. Beyond these, I just go with the pick. If I feel specific affinity to a company, I might put a bit more into that, or I feel I see that I have a specific amount of cash more than I have, I might put more into that. Or let's say we have a lot of let's say I like REITs. Like if the pick is a REIT or something, I might just put more money into that.

Ali [00:05:56]:

I tend to like the concept of REITs or like fixed income or like companies giving back a lot of dividends. So that's why, for example, I like these. So I might tend to put money more into these picks or not. And that's really how I've been doing it.

Andrew [00:06:10]:

Nice. Yeah, I like that. It sounds like it's flexible and you're willing to adjust to what the conditions are for not only yourself, but also what's in the market.

Ali [00:06:20]:

Yeah, absolutely. And some of the picks may, I feel, have a bigger role in the upcoming, let's say short term or long term in terms of the country, like maybe home building or appliances or whatever, more than or like, let's say AI or chips or whatever as well. These, I feel like they have a bigger feature than maybe some of the stapled kind of things, although all of them will have a role in my portfolio just in a different way kind of thing.

Dave [00:06:47]:

Yeah, that makes a lot of sense. So I guess how do you see the portfolio moving forward? Do you think you're going to kind of try to keep it at that kind of mixture of individual stocks and more ETFs? Or how do you see that evolving? Or do you see that evolving?

Ali [00:07:04]:

Well, hopefully it just keeps going up, but beyond that, I don't really have a specific feel on how it's going. I think I'm going to stay in that range of 60 to 40, like 60 single picks and 40 ETFs. I do not have any plans of incorporating bonds at this point in terms of fixed income and stuff, just given how the job usually is in terms of a resident physician, then moving on to fellowship or like an attending physician, there's just a big difference in terms of income. And then I use that extra income maybe to build the bonds or like the fixed stream later on, but nothing really currently. I don't foresee anything like bonds or for the next 2030 years. But focusing on this, just let's say the Roth IRA, I think it's going to remain more or less the same, depending really on opportunities. Maybe at some point I don't feel like I want to do a lot of picks anymore. I might tone down a bit and increase the ETFs a bit more, or maybe the opposite.

Ali [00:08:09]:

Wow, there's a company I really like. I'm just going to keep piling money into it and then it's going to grow exponentially and inflate that portfolio.

Andrew [00:08:18]:

So you can obviously correct me if I'm wrong, we've been chatting to you for what, like half hour? But you do strike me as somebody who has a good sense of risk management. You seem to have a good dialed in sense of your risk tolerance. Where do you think that stems from?

Ali [00:08:35]:

Absolutely, I'm very risk averse, although I'm just learning more and more now about what it means to take a risk, how to try and quantify it. All the good books come into mind, like The Black Swan, all these stuff. I'm just getting now into these stuff. I think this really stems from my background, middle class, frugal childhood, building myself up, moving all the way here to the US. And trying to build a new life for myself and being immersed in this world of hyper resources for everything. And if you're here, you can make yourself you just got to have the right mindset and right attitude to an extent.

Dave [00:09:20]:

I think you definitely do have that right mindset and right outlook. I applaud you for everything you're doing. I wish I had had that same fortitude and resolve when I was your age.

Ali [00:09:31]:

Thank you.

Andrew [00:09:32]:

Do you feel like as you've continued to invest in the stock market, do you feel like some of that appetite to take risk has maybe increased as you've gotten more comfortable? Or do you feel that you like the risk tolerance you have now and you see that continuing for the future?

Ali [00:09:50]:

Yeah, I mean, what I mentioned that in some certain points I did take a risk. For example, so remember being on vacation in Miami with my friends, and it was that episode when Musk was going to come on Saturday night and talk about dogecoin and then, all right, boys, what are we doing? Beach and putting money in dogecoin? And then we put whatever expenses, like certain expendable income we had, or at least I did. I don't know about them. We parked. I mean, I put, I think, at least $500 in there, and I just saw it go up and then down. It's fine to take some risks from time to time with the expendable income that you know for sure you're going to lose. But if you win or if you have a great return from it, that's great, but don't really count on it. I'm sorry, what was the question?

Andrew [00:10:43]:

Just curious if your risk appetite has changed from day one, being a beginner. Not really. Necessarily having the experience to know what kind of investor you want to be versus today.

Ali [00:10:55]:

Yeah, I feel like my risk appetite has more or less remained the same in terms of my focus is still to build a very good base for myself and build a solid base that I can count on in the future when I retire. And then after that, I can start thinking about taking more risky investments or these kind of stuff.

Andrew [00:11:20]:

So you've mentioned REITs, which if you're a beginner, that's a real estate investment trust. It has much higher dividends than the usual stock. You also mentioned liking bonds or at least being attracted to the idea of that steady income stream. So what is it about, like, a steady income stream for somebody who's a beginner, hasn't been an investor, doesn't even know this is possible. What is it about a steady income stream that's appealing to you?

Ali [00:11:46]:

It's simply because it's 100%, it's going to be yours. You can count on this income over the next year or over the next five years. Like if you put money in a CD for five years and then you know you're going to get that money at the end of the road plus whatever they promised you. Same thing for bonds. I'm also a big fan, at least at this point of searching every few months for saving accounts or checking with a good bonus. Just because if you calculate these returns for the bonus, you can get like a ten Apr for that 10% Apr for that certain year just by parking your money there as opposed to keeping it where it is. So just focusing on these stuff, you can make an extra money that you can either splurge on yourself or just put more into the stock market, whichever.

Andrew [00:12:42]:

You prefer to start that snowball effect right where every year you get a little bit more, a little bit more. You would mention certain picks that you might like that you would put more money into and feel free, you can mention any of them that have been in Value Spotlight, I don't mind. But when you say when I like a pick more, what does that mean to you? Is it metrics based, quantitative? Is it something more qualitative? How do you determine that for yourself?

Ali [00:13:11]:

Unfortunately, it's not really metric space. Unfortunately or unfortunately, I'll leave that up to you guys. But in terms of and I don't want to use this term vibes because such an oversold term at this point, but just thinking about, let's say, the Texas Instruments, for example, I really feel like the company has a good outlook just based on how things are geopolitically in terms of the amount of use that we need for these stuff. Now, of course it's up to them if they make use of all these proper environment for them to grow or not. But that's why we rely on metrics. But based on that while for example, the similar company like the TSM Taiwan Semiconductors, I was a bit hesitant just because of the way things are over there. I may or may not understand the situation well over there, but it's really way above my pay grid to know what's going to happen there. It's a lot of classified information, a lot of things that we do not have simply control on.

Ali [00:14:15]:

So maybe I prefer and that's why I like to mostly invest in US companies as well, similar maybe like stuff. Now, I wouldn't go really into banking a lot. I do not understand that. That's why we have Dave. Yeah, this is the main example. I would say we have a lot of examples also for even if you have a good outlook or good feeling about the company, it might turn to be not a bad investment, but disappointing one most recently Target was not what's really disappointing either, although I did not look way deep into it. But it could be a mixture of actual finances, but also whatever recent controversy they found themselves in.

Andrew [00:15:03]:

Yeah, I feel like you have good insight into the process. It is about building a portfolio and as much as we can fall in love with one company or the other, the future is uncertain. So that's why we have to diversify.

Ali [00:15:18]:

Absolutely. I mean, diversification is king not only in a portfolio, in how you put your money, really in everything, like in life, but specifically stock finances, like diversification everywhere in ETFs, diversify in picks, diversify in different modes, diversify in different money, operating. Let's say you have some Roth IRA, but also you want to put some stuff in that. Recently I had to make a decision whether to put some of the money I get from my company or from my employer in a Roth 403 B versus a regular one. And I read a lot of articles, which one do they recommend? And each person has different opinion. And then I fell back on one rule, I just diversify. So I put them in everything. I have everything in Roth now.

Ali [00:16:13]:

Let's just put them in a regular one. Whatever happens in the future in terms of a tax code changes or like in an income stream, I'll be set for it because I'm diversified.

Andrew [00:16:22]:

Yeah, love that. Do you want to talk about your international exposure? You mentioned some ETFs. It'd be fun to dive into some of that.

Ali [00:16:30]:

Yeah, absolutely.

Andrew [00:16:31]:

So you mentioned the different areas that you're kind of putting money into. I think you mentioned Asia, Europe, and there was another one I can't remember. So how did you thank you, Indiana. How did you come to those? What was the driving force behind that decision as well?

Ali [00:16:49]:

The decision that really I mean, listening to different podcasts or reading different articles online and stuff, I wanted to see what that kind of exposure is. And some of the really big companies internationally. Surprising to know that. But there are good companies outside the US.

Dave [00:17:07]:

Yes.

Ali [00:17:07]:

So I decided to look into that and that's why I fell onto these different areas and I read about all different areas. I read about South America, about different kind of ETFs. Let that include, I think, China or not. And I mean, you can know because some of them have like they have the name and then ex China or ex US means without the US. And that's how I look, I try to compare them, but it really falls always down to two things for me, the expense ratio and which company holdings do they have? If they have 99% in one company, like in Japan, not sure which company, maybe it's Samsung or something like that. If they have 99%, then they might as well just go invest in that company if you want. So also go back to they need to have a good diversification in that company. And then you just read how the situation is there for in.

Ali [00:18:07]:

Personally, I don't like investing in China specifically just because of how the political structure is there and how we really can't know a lot of information from there. So I just stay away from that. I don't want to park my money over there. Some people might have the appetite for that risk, but they can do that. I'm investigating India, so there's an ETF Franklin something, I use that and there's one in Europe. I actually have them in front of me, but it's the vanguard one. So you have the Vgta and the VPL. The VPL is Pacific one and the VGK is the European one.

Ali [00:18:49]:

And why I focus on the expense ratio is because I think it's a loss just from the get go, although it's a small loss, but some of them might charge you 1.5% as opposed to 0.2%. So that's like 1% per annually that you're not going to see. Just based on that, it adds up to go back to one thing we mentioned, I don't understand or I don't believe in the utility of investing internationally in this kind of world that we live in currently. I feel like all the companies are connected. It's really hyper globalized and I don't think we understand yet all the de dollarization, all this kind of stuff that people talk about. I don't think we understand yet how these are going to affect the international markets. So it might actually make them more independent and then it's important to invest internationally if you want, but it also might mean that they all go down or up at the same time. So might as well make it easier for yourself and put your money here in VTi or something like that.

Ali [00:19:59]:

So I mean, only time will tell. I doubt anyone really has a really good answer for this.

Andrew [00:20:05]:

I mean, people have their own opinions. They'd love to spout. I mean, for me personally, I'd be curious what your thoughts are. I just feel like picking a ship and sticking to it for the most know being somebody who buys a lot of US stocks, that doesn't mean I'm not getting exposure to the other countries. You look at a company like Microsoft, more than half of their revenue or about half of the revenue comes from abroad, but you always run that risk. That like China was in the 90s or other countries that have had growth spurts. You can totally miss out on that growth. Question is, what's the trade off of? Do I want to play that currency game? Do I want to play the world economic game or do I want to stick to a circle of competence? Dave, how do you kind of think.

Dave [00:21:00]:

Of I that's a good probably I think I try to stick with my circle of competence. But I won't lie and say that I do come across companies like Ajin or Topicus, which are both in Europe, that I fall in love with and I decide to buy. But the same token, I own Visa, which is a global country, and they do half of their revenues, if not more. Well, maybe not quite half, but they do quite a bit of revenue outside of the United States. And so it's an international company. And so I know that I was reading Netflix's NK the other day, and I think they only do about 30 or 40% of their revenue in the United States, the rest of it's global. And so when you invest in a company like that, or Google, you invest in those companies, you are investing internationally because they have quite a bit of exposure to outside of the United States. And so you do get a mixture of mean, you can go hog wild and know, invest outside of the United States and kind of do like Ali's doing or even doing a little bit like I'm doing, or you can go nuts and just buy companies just all in LATAM.

Dave [00:22:13]:

And be done with it. But I think I try to stay more in the United States and get that exposure through the companies that I'm doing in the United States, because it's my circle of, you know, I've been to Brazil, but I haven't lived there. I know nothing about Argentina, I know nothing about Colombia. And me trying to invest in those I feel like would be outside of my circle. Same with India. I've never been there, and I'd love to invest in it at some point, but I just haven't pulled the trigger yet because I don't know what I don't know. And I feel like it's easier to, I guess, keep my home bias and invest here in the United States.

Ali [00:22:48]:

Yeah. No, I agree. And just to be clear, for example, I have my exposure to international stuff, at least direct companies is like 10% in my portfolio. And I don't think there are plans to make it any bigger. And going back to India specifically, you hear a lot recently about Apple trying to shift all their production to over there or diversify in that region, et cetera, et cetera. But I also read other articles at the same time mentioning how their country or their way of economy is not going to last, or at least it's not going to be sustainable, et cetera, et cetera. So we simply do not know. And the regulations over there are not things as we understand as well as we understand that regulations here.

Ali [00:23:35]:

So might as well play it safe. You actually want to be very safe, then maybe it's easier to put all your money there. And that's why, just as I experimented with bonds for a short time, for like three years, I'm now experimenting with international stuff doesn't mean I'm going to stay in it for long. Maybe as I invest more in us. Companies, this 10% will shrink and become 2% in 510 years.

Andrew [00:24:00]:

I would like to see more international companies that would trade on the NYSE or the Nasdaq. I mean, I was looking at a company yesterday, huge presence just diversified throughout many end markets related to building products, but they traded in Paris, so you can't buy stocks traded in Paris in a retirement account, at least not with Fidelity. So it would be nice to see some of you know, nothing of this is static, and that's what I appreciate about your answer, Ali. You say what I'm doing now can change depending on how the world changes. And for all we know, we're going to be listening to this five years later. Dave and I are going to be like, yeah, you're not doing that anymore. So it all depends on what happens in the.

Ali [00:24:46]:

I mean, it goes back to someone you guys actually introduced me to him Vitali and his all weather portfolio and all this stuff that he mean. I think it's really important to try and get to that all weather portfolio because we simply do not know what's going to happen in the future, given all the different stuff that happened all the time around us. What's even harder than that is getting that portfolio, but also positioning it well to grow in a way that will give you enough revenue whenever you want to use that money to retire or whatever you want to do.

Andrew [00:25:27]:

I love that you brought it back to the basics of what are these investments even trying to do for us? And to your point, we want to have income, especially in retirement. So, Ali, what does financial freedom mean to you if you could try to obviously a tough question, but what would that mean for you?

Ali [00:25:44]:

That would mean to me, given how my job is and what the future looks like, that either means to me that early retirement or like, early I mean, early for doctors means 60s probably, but early retirement and simply relying on that money to being able to be completely independent. In the future, I will have opportunities to work, let's say one day a week, and make enough income just because of the type of job. But let's say I don't want to work and that really means financial independence. And not only then, also now. Although, granted, it's very hard now to be financially independent, of course, but really focusing on the future and simply being able to live your life, maximize doing whatever you want to do without worrying about your finances.

Andrew [00:26:42]:

Yes, that's a great answer. I really like that. Okay, we'll pause for a second. Sounds like the dog got in the way. Do you have anywhere you would particularly want to talk about from here, Ali?

Ali [00:26:56]:

Maybe we can talk about parking the money like e bills and these kind of stuff. Maybe a bit about can and maybe, I don't know, maybe you can also like, I was also thinking, probably not now, but when is a good time to start thinking about getting an accountant to look on your finances? Trying to maximize all the tax stuff?

Andrew [00:27:18]:

Look at which account no, at some.

Ali [00:27:23]:

Point there comes a time where you need to maybe hire a tax expert that would try to help you maximize all the deductions and these kind of stuff. I don't know how we can tackle that, if any. If not, then we can forget about it.

Andrew [00:27:38]:

Yeah, that's a good idea. Yeah, I really like those answers, and I feel like you have a good sense of where you're trying to go with your financial future, and I think that's important. If you're a beginner, it doesn't mean you have to have it all figured out today. But over time, hopefully, as you learn about investing, you start to get a sense of what you're trying to do, and that helps you become a better investor and a better investor for yourself. So I guess, Ali, do you have questions around what the end of that journey looks like or even anything in between? I take from our conversation today, you're in that accumulation phase. At a certain point, hopefully all of us are going to hit that harvesting phase. But what does that look like for you in that transition? Did you have anything that you were curious about along that path?

Ali [00:28:31]:

I think one thing that I tried to experiment in previously, but then stop, which is bonds, really. And thinking about how to incorporate bonds towards the end of the portfolio, especially when you have to start relying on this income to actually live. You hear a lot these days about bonds sell up, bond sell off, rates going up. And to me, as a beginner, it doesn't make sense. Like, if the rates are going up, why are people sending off? Are they moving their money to different port, like different investments that can make them more money? Or what's the deal there? And when would be a good time to start moving? Would it be five years before your retirement or just at 65? Or if you have any thoughts, maybe.

Dave [00:29:25]:

Those are some big questions. So I guess let's start with when would you want to start looking at bonds? Some of it's going to go back to the personal part of personal finance and where you are in your journey and how risk averse you are. Generally, bonds are safer than stocks or equities, but not always, as you have learned in your short time in the market. There's nothing absolute there's. That kind of part to think about. So let's say you're 50, you're 1510, 1520 years away from retirement, depending on where you are. That is probably, I guess, the generally accepted time to start considering moving some. Of your portfolio into more of a fixed income status.

Dave [00:30:16]:

And I'm not saying going from 100% to 50%, but maybe like 100% to maybe like 15 or 20% of fixed income. Whether it's bonds, whether it's savings accounts, whether it's money market accounts, whatever is going to earn you the best return that allows you to still sleep at night. And as you get closer to that retirement age it starts to shift to 50, 50, maybe 40, 60, 30, 70 again. It really comes back to your risk tolerance. And the other thing we have to think about too is we're all living longer now. And so the standard that maybe our parents and our grandparents lived by is different than we are my generation and you guys are younger so your generation will be even different by the time you guys are my age. You guys might live forever. I don't know.

Dave [00:31:01]:

With all the advancements they have in medicine. Right? But having said, that kind of the best way to think about bonds. For the people that are like, what the heck are they talking about? Bonds is basically a fixed income asset that you can buy that is the debt of another company. So they're selling you the debt. When you think about investing in let's use Microsoft, the company, everybody knows it's very familiar. You can buy the stock, which is the equity that you trade on the stock market, but you can also buy the debt. So Microsoft will sell debt to people. They'll say to me, hey Dave, if you give me $100 that I can use to go invest in whatever I want, then I'm going to give you a dividend.

Dave [00:31:45]:

They call it, it can be a coupon or dividend. They'll pay you a fixed amount of that money and then you get your $100 back at the end of whatever the contract is. Typically it's ten to 30 years depending. That fixed income. You know you're going to get your money back and you also know that you're going to earn some small income as the company continues to hold your money and use it to invest. And so when you buy those, those are generally safer than buying the equity of Microsoft, but not always. Some of it will depend on the company and what kind of debt you're talking about. Without getting all the nitty gritty of everything.

Dave [00:32:27]:

You're kind of asking like why would people want to buy bonds now versus before? And a big part of it is the interest rates. So the interest rates right now are hovering around 5% and that's for the ten year treasury bond, which means that if you buy treasury bonds for 5%, you get 5% return guaranteed from the government, which is the strongest financial instrument, one of the strongest financial instruments you can buy. And some people will look at that and go, well that's risk free, I'm not going to lose money on that. And a 5% return is really good and in most cases that's better than almost any savings account you can find. And so people will flock to that thinking, hey, I can earn 5% without any risk. I don't have to worry about buying Tesla and worrying about it dropping 22% in the next week and a half. I can just buy a T bill and go, oh, okay, great. So that's part of why there's a big flocking to those recently as the rates have gone up.

Dave [00:33:27]:

The other reason that you're seeing this big sell off in bonds right now is because a lot of people are selling the bonds. They have to buy ones that have a better yield. So when you buy a bond, you kind of have a contract. And so if you have a ten year bond and it's only giving you two and a half percent, which is what the rates were a year ago, you could sell that and buy a new one and get a 5% rate. So it's higher and so there's that too. And kind of the way the bonds work is it's set at $100 and you get a certain percent of a dividend. Let's say you get $2 of a dividend. As the price of the stock falls, that dividend goes up.

Dave [00:34:07]:

The actual dollar amount doesn't go up, but the return that you would get would go up. And it kind of works like a seesaw. So as the prices of the bonds go up, the yield, the return that you would get on that bond falls. And when there's a big sell off on bonds, that means the prices go down and that means that the yields go up and that makes them more attractive for people to rush in and try to buy those air, quote, cheaper bonds. And that's where the inflows and the outflows of the bond market comes from. And that's why people look at those as an opportunity to buy them. Now, it all sounds great in theory. The challenge with bonds is that it's really hard to buy them as an individual investor.

Dave [00:34:49]:

So us, the three of us here, we got to come up with 100K or more to buy one. And so most people you look at looking using Bond ETF funds as a way to work in the bond market and you can do that and that's great. It's not an area I play in. I did a little bit and I learned enough to know that I don't know enough and then I kind of got out and so it's not really an area I play much in. But that's why, I guess in a nutshell, what bonds are, why people are flocking to them right now. So I guess does that help a little bit?

Ali [00:35:20]:

Yeah, no, that's super helpful. And going back to the last point, that exactly was my next question, which is I also did a bet in the E Bond ETFs and this is what I learned essentially that I don't know enough. But also, any idea why when you use the government website, which I mean, a lot of people have very strong emotions about, you put like, let's say I used it to buy the Ibonds whenever they were giving the 9%. So I also played with that a bit to add to my story. But I use it for that. I know it can be used to buy just government bonds providing the 5% you just mentioned, but let's say you put $5,000 in there. When you enter the website, you still see it as a $5,000 and you know you're going to get the 5% at the end, let's say. But if you buy the ETF, for example, when I did, by the time I sold it, it was negative 40%, let's say, with the income that I was getting every month or every quarter from that bond.

Ali [00:36:32]:

So by the end, I'm not actually getting even my money. But is it like if I have waited ten years for it to, quote unquote, mature, then it would flow back in there? Or how would you reconcile these stuff.

Dave [00:36:49]:

Without getting super technical? My understanding is that the way the bond funds works is they buy bonds on different maturity levels, and so however long they buy a bond that's got a ten year maturity level and it drops, then it has ten years to mature. But if they buy bonds that are shorter in duration and they drop, they don't have as long to recover. And so that's kind of my understanding. Again, I'm not an expert in bond ETFs, so don't take that for what it's worth, but I remember reading some early on that was kind of how they would play the market, was that they would buy varying ranges of durations of bonds to help mitigate that risk of the fund falling that much. But yeah, I had the same issue. I had the bond fund that dropped like 30, 40%, and I was like, okay, yeah, we got to get out of this.

Andrew [00:37:45]:

Yeah, no, I think this is one of the tragedies of the last five years that's just not being talked about all that much. This whole bond discussion, we just recorded an episode on it and going to try to answer your questions here. Ali probably does fall a little bit outside of our circle of competence, so I would recommend talking to a financial advisor. I would say when you're asking about why the ETFs are falling in value, we have to remember that you have a bond which, again, if you bought one, it would do a certain thing for you. The ETFs are buying baskets of bonds. So let's take like a ten year treasury and say it's an ETF that buys ten year Treasuries. So this means that they are buying, I don't know, 100,000, however many Treasuries per day that they're buying. If I have treasury and they're holding them to maturity.

Andrew [00:38:41]:

Right. But if I bought a ten year today and then it fell in price in a year, but I still have that ten year on the balance sheet, then the value of that fell. So even though I'm getting the coupons on it, what that bond is worth is less. And like Dave said, it's on the seesaw. So when you see interest rates going up, that means that less people are buying the bonds. And when we say people, we don't mean retail people like you and I. This is a multi trillion dollar market and we're talking about banks, sovereign wealth funds, all these sort of big financial institutions that are either buying or not buying the bonds. That causes the prices to go up or down and it causes the yields, the effective yields to go up or down.

Andrew [00:39:33]:

And so I think that's why it can make it so confusing, because we're guilty of it. Just like anybody else. We try to simplify, to try to explain what's going on that doesn't really tell the whole picture because the bond market is massive. So to go back to your question, why did a bond ETF fall? Some of it could be what Dave's saying, where they're buying different maturities. Some of it too is just simply for the fact that they're buying baskets of bonds. They're not buying one bond. So we have to separate the thinking from one bond in time versus they're buying baskets maybe every day or whatever their frequency is. And so if they have bonds that they're holding, but the price of those bonds has gone down, then that value of that ETF has gone down.

Ali [00:40:19]:

No, I think some of this makes sense, of course. But I think if you're not a full time or this is your not job full time to invest or to diversify and do all that stuff, then maybe you need to say, all right, this will take too much effort and I need to rely either on a specialist or tax or, like, an accountant or I'm just going to not do it. Sometimes I just think that Apple or Berkshire or Microsoft are so big that they can actually act as a very stable place to just put your money and rely on them for the next 30, 40 years to give you money. So why even bother with this headache of thinking about bonds and these kind of stuff?

Andrew [00:41:06]:

Yeah, that's going to be a question that's personal to everybody. I guess My Take on it, since I haven't Shared yet, is Brian Feraldi had A really great graphic that he shared on Twitter where he Talked about The Probabilities of Making A Profit In The stock market and how if you look at one day, your Probability Is close to 50 50. But if you zoom out over 20 years, every 20 year period we've ever had in the stock market, if you bought and then in 20 years, looked at what you bought, you've made money on that deal. When we talk about bonds in the context of what's happened over the last three years, and particularly when interest rates have gone crazy, that's a very special time over the lifetime of an investor. That's usually not going to happen. We talk about bonds like it's this isolated thing. Stocks, a lot of stocks, multiples have come down too, quite a bit, and probably as much as bonds have, if not more, because usually they would fall more than bonds. We're just seeing a really weird time in the stock market where you have the magnificent seven stocks that are driving the whole index.

Andrew [00:42:11]:

Right? So when I look at at a certain point when you're so late in the accumulation phase that you're starting to look at harvesting, I think the hassle and the complexities around having bonds in your portfolio becomes worth looking. Into. Because historically, over many, many decades, bonds have been that safe haven of shelter for investors. Because, like Dave said, in the beginning, they are contractually obligated to pay you that money. Whereas a stock somebody could cut the dividend. So because of that risk reward. That's why I like your approach, Ali. Somebody like Apple or Microsoft or Berkshire has way less complexity and has a nice long time horizon because they're such strong businesses and they do generally make more return than a bond would.

Andrew [00:43:07]:

But the bonds have their place for high net worth, ultra high net worth who don't need to accumulate, and people who are harvesting at the end of their retirement. And so when you add that, plus the fact that you do have taxes and all of that, I think it does make sense to have a professional help you with that. But again, we're talking about being close to that harvesting stage. And where is that risk tolerance and how much? Somebody has a $20,000 portfolio. Maybe it's not worth it, but if it's significantly higher and they're looking to start to harvest it, I think the bigger that becomes, the more value you could probably get from a financial advisor who can also get you resources to help you with taxes. Because, yeah, when you sell investments, there are taxes too, unless you have everything in the Roth. So that's a lot of factors, but hopefully that's somewhat helpful in showing what the future could hold.

Ali [00:44:06]:

Yeah, I agree. And of know, long term thinking, you also have to think like companies. Apple, Microsoft, they're open to liabilities, antitrust, all these stuff that we don't like. This country goes from one side to another in terms of thinking about antitrust during the years. So you don't know in 50 years how things are going to be. So you can't really open yourself to all these stuff just by relying on one company to make you money when you actually need it the most, which is retirement.

Andrew [00:44:36]:

100% yeah.

Ali [00:44:38]:

But in the short term, let's say now T bills are also being talked about how would you park whatever money? We're not like, talking Buffett level, but he has billions just being parked in government funds. But for someone that's a really beginner who has, let's say, a couple of thousand on the side or like, whatever disposable income that's on the side, where would you think we best? First, is there any difference between what's called, like, a government money fund or the SPACs fidelity, which is the default they place the money or actually putting them in something called the treasury bill ETF. And the second question is, would you even bother? Versus just putting them in a savings?

Dave [00:45:27]:

Well, I think it really kind of comes down again to your personal choice. So let's say hate to keep going.

Andrew [00:45:33]:

Back to that, but easy option first, please, right?

Dave [00:45:35]:

Yeah. Let's say you have $2,000. I guess the first question I would ask myself would be, how liquid do I need this to be? So, in other words, how quickly do I need to be able to access this? If I'm like, okay, I'm comfortable socking this away for the next five years, then to me it would be a no brainer and put it in a T bill and be done with it. If I was like, I think I need to keep, like, $1,000 around for whatever reason. Then I would start looking for savings accounts, short term CDs, maybe a money market account that would pay me a decent return and put that $1,000 in those, maybe a combination of those or just one of them, and then put the $1,000 in the T bill if I want all of it to be liquid. In other words, if I need to access it tomorrow, then I would put all of it in a savings account or a money market account that I can withdraw immediately simply for the fact that you're going to get a decent return. I know that I bank with Ally Bank, and I think they're around four, four and a half percent on savings accounts right now, which isn't awesome, but it's a heck of a lot better than a lot of other banks. And if I need it, that makes me feel better.

Dave [00:46:47]:

If you're saving money to buy a house, do not put it in the stock market. Do not again, do not put it in the stock market. Put it somewhere safe like a savings account or a CD and just be okay with earning 3% and just moving on with your day. There are bigger fish to fry. But that's, I guess, how I would approach it, I guess. Did you have any thoughts on that, Andrew, or is there anything, Ali, that you wanted to comment on?

Ali [00:47:13]:

I just wanted to be clear that I was talking about money that's parked there for investing in the future and not like, for personal finances. I just do all the finances on the side and whatever money I have, I do the investing. So for money that's really set aside for investing purposes, where would you think it would be a good idea to park them in wallet. And is there any difference between government funds versus fee bills versus I mean, we're not going to go back to bonds, so let's not talk about that.

Dave [00:47:47]:

I guess for my money's worth, again, it goes back to the liquidity and how long you're intending for that money to sit there. So if you're intending it to sit there for a really long time, I think the thing with the T bills is it is liquid. You can get it back. It just takes a few days to work with the government website to get the money transferred back to you. It's not as fast as a savings account or it's not as fast as putting it in the money market fund that Fidelity holds your money in. To my knowledge, the money market fund that Fidelity holds the money in, I don't think it gives you much of anything of a return. So basically, like most checking accounts, it's just kind of there. So it really, again, kind of comes back to how quickly do you need the money and how long do you intend or do you think you're going to have that money sit someplace before you put it in the market? If it's only going to be there for three weeks until Andrew's next pick, then I would just leave it in the SPAC and not even worry about it.

Dave [00:48:41]:

You got bigger fish to fry. But if it's going to be there longer than that, then I would look around for other options that Fidelity has. Savings accounts, I don't know what their returns are, I don't know what their rates are, but that would be an option. Or looking at, again, T bills or some sort know, money market fund I think would be liquid enough. Andrew, what are your thoughts on my crazy ideas?

Andrew [00:49:03]:

We're not crazy. I think when people talk about, like, Buffets in T bills or Buffets buying bonds, we have to remember that they have many insurance subsidiaries. And so if he's buying T bills, that doesn't mean he's keeping them as fresh powder. He could be buying them to keep enough reserves for the insurance and all the complexities that go into that accounting. And so what he's doing is different. If a hedge funds talk about it too, they could have certain, like if it's an all weather fund and they're trying to always keep 20% in cash, that might make sense to put in T bills also because you can get that allocation that they're always looking for. But if you buy T bills, you do run the risk of it going down in value. Because if I'm buying a T bill today, let's say I'm buying a T bill in a month, and T Bills are earning 6% yield.

Andrew [00:50:00]:

Why would I buy Dave's T bill that he bought a week ago that's only earning 5% when I can buy a new one at 6%? So that's why Dave's T bill would go down. And so to your point about having bigger fish to fry, if you keep it in cash, the benefit is if Berkshire goes down 20% overnight tomorrow, you can just take that and you're going to earn 20%, assuming you got a 20% discount, what its long term value is worth. So I think when we're talking about the T Bills, I think it's a great question. I think it's super fascinating, especially with all the movements we've seen the last several years. But if you put it back to that bigger fish to fry, plus you are taking on capital risk, price appreciation risk, I think it also makes sense to just keep it in cash and have it ready whenever you want to pounce.

Ali [00:50:49]:

So it's similar to the bonds, but on a much shorter or short term scale. And I was just checking, like the Fidelity government money market, they say that the seven day yield is 5%. I don't know if that means that they actually give you that per year. Of course, 5% if you keep that money in there or not, but just keep it there. It seems to make more sense until the next pick or until your next investment.

Andrew [00:51:16]:

Yeah. I don't want to speak for them, but I'm assuming they are recycling those like crazy in order to keep it similar to cash. But that yield would probably go down if we saw the Fed start to cut rates. And so that yield is not static. Neither is your yield in your savings account. The lovely part of the game that we all play.

Ali [00:51:41]:

Yeah, that's why, I mean, most of your income or most of your inflow will be from stocks, from long term investing in stocks, right?

Dave [00:51:52]:

Yeah, 100%. I think the thing that I would come back to is I know there's always a pressure to try to optimize, but I guess the thing to keep in mind is to what extent do you want to spend your time trying to optimize a potential money that you're going to invest? Or would you rather spend time optimizing the pick you're going to make that's going to make you more? And we all have a finite amount of time to do all these things. And if You're Spending all Of Your time trying To Figure out how to earn an Extra three or $4 versus trying To Figure Out where Is it best to Put My money in this pick for Andrew or The One He Did two months Ago that I Think Has Got even Better Return, I would rather spend my time trying to figure that out than trying to make an extra $3. But that's just the way I'm wired.

Ali [00:52:42]:

Absolutely. Yeah. I mean, you actually reminded me of something I forgot to mention is that when I put the 550 in the Roth, not only I do the monthly pick, but I also look to see which of the recent not. Like, two or three years ago, but recent. Like, more like in the past few months that are still in a similar price range that I feel good about. And I put more in there. So that's one thing.

Dave [00:53:08]:

I also yep, I do the same thing.

Andrew [00:53:12]:

That's awesome. Well, Ollie, we really appreciate your time. I want to thank you personally for being a member of Value Spotlight, and it's great to have you on the show. And this was a great conversation to go back and forth with Bonds. I know it's an endlessly confusing topic, so hopefully we answered a couple of questions there.

Ali [00:53:27]:

Yeah, no, thank you so much. It's really a pleasure to be here. And all the recent changes on Value Spotlight giving us more insight and more topics to think about. Before, it was more on a monthly basis. Now it's multiple times a week and keeping us engaged. It's really a pleasure to be part of this community.

Andrew [00:53:47]:

Thank you.

Dave [00:53:48]:

Awesome. Well, Ali, I wanted to thank you as well. We really appreciate you taking time out of your day. I know you had your day off today, but I know you work hard, so we appreciate you spending some of your free time with us. We learned a lot, and hopefully you learned a thing or two as well, and we appreciate your time. And with that, I will go ahead and sign us off. You guys go out there and invest with a margin of safety, emphasis on the safety. Have a great week, and we'll talk to you all next week.

Ali [00:54:11]:

Bye.