IFB321: Getting Started with Investing in Stocks - Easy Steps for New and Tight Budgets

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Dave [00:00:00]:

All right, folks, welcome to Investing for Beginners Podcast. Today we have episode 321. Today we have three great listener questions that we're going to go ahead and read. But before we do that, if you have any questions that you would like us to answer on the air, please reach out to us. We'd love to help. You can send your questions to newsletter@envestingforbeganners.com and then Andrew and I will read them on the air and you can get your questions answered and we can help everybody that needs help. So without any further ado, let's go ahead and dive into today's question. So here we go.

Dave [00:00:32]:

We got good morning. I am looking to get out of debt. I am on a tight budget, and I want to know how to start investing in stocks. How much does it cost to start? Is there an app to use, or do I have to use an accountant? Thank you for your time. So, Andrew, what are your thoughts? This is a really good question. So what are your thoughts on how does somebody get started?

Andrew [00:00:49]:

Yeah, great question. Thanks for writing in. I sincerely hope you get started and find progress over time. You do not have to hire an accountant. You can open a brokerage account. I like to recommend Fidelity just because it's simple. You can start investing with as little as $5 with Fidelity. So if getting started is your biggest obstacle right now, I would ask you, after we finish reading this question and answering it for you, turn it off.

Andrew [00:01:20]:

Go to Fidelity.com. Open an account and you'll be surprised at how easy it is. And that's your first step, is to open an account, put $5 in and buy something. Once you can get over that hurdle, you can see that taking control of your financial future is in your grasp, and you can do it. And if you just put 1ft in front of the other and start taking steps towards that, you're going to find it's a great path. But you have to get started. You have to get past your fears and anything that you come up with as excuses. If I was able to do it, anybody can do it.

Andrew [00:01:52]:

And so it does take putting that first step one in front of the other. So that's your first step, is to open an account, buy something with $5.

Dave [00:02:02]:

Yeah, that's great advice. And there's literally no speed bump to prevent you from doing this. As soon as you listen to this question, you can go out there and you can start right away. And it doesn't cost you anything. There's no fees for opening a fidelity account. There's no minimum balances that you need. You just need information like your checking account and how you want to transfer the money from your bank account to the brokerage account. Fidelity is the one that we suggest, but there's a million of them out there, and the vast majority of them now are, at least in the United States, there are no costs to do that.

Dave [00:02:34]:

And so it makes it really easy for you to get started. And you can literally do it on your phone. You don't have to go to a computer if you don't have one. You can do it on your phone, you can do it on your. It's very, very easy to do. And you can literally open the account in less than five minutes. And it's not super complicated, it's not super hard. And then, like Andrew said, as much as you can afford, and then buy one thing, whatever it is, you don't have to worry about trying to hit it rich with the first pick.

Dave [00:03:02]:

Take the plunge, jump into the water. Water is warm, and it will get you started. And once you have ownership, you'll feel like you're doing something. I think the hardest part is getting over the inertia. And once you get over the inertia and start, then you'll be able to ask a million other questions and start figuring out how you want to invest and what's going to be best for you. And those are all personal questions that we can't answer for you, but those are things that you can do, and there's no reason to not start. As soon as I'm done talking now. Do it.

Andrew [00:03:34]:

Do it. So we just said, turn it off. Do the first steps. Once you've done that, you can come back and listen to the second part where I tried to look back at the different interviews we did. Because Dave and I aren't like personal finance experts. We know enough to be dangerous, basically. But we have had a couple of guests that have talked very specifically about your situation. And so one of them, I would recommend, these are all in the archives so you can go back and download them, listen to them for yourself.

Andrew [00:04:05]:

This one was from November 2021. We had a guest called, his name is Chris Granger. He's a good friend of mine. He said digging out of heavy debt so you can invest more. So check that one out. We also did an episode with Shamas Madan, who, I can't remember how old he is, but I think he was like, 16 when we interviewed him. Yes, this was in December of 2021, and the name of that episode was getting started in the markets early with Shamasmadan. And so he talks about how you don't have to be super old to get started and the power in getting started early.

Andrew [00:04:43]:

And he is a model of somebody that anybody who's younger could follow and find success and figure out what you're doing as you go along. I mean, I like to think of the imagery of building a plane while it's in the air. You can 100% do that with your investing, and that's totally what I've done.

Dave [00:05:02]:

Yeah, me too. I think as far as Andrew and I passing along advice on how to get out of debt, I think there are so many other smarter people than myself that they spend a lot more time thinking about this than I do and have a lot better strategies. And there's a million and one different kinds of strategies. I think the thing is, you need to figure out what you can afford and how you can work to pay it off. And a little trick that I have picked up years ago is if you have credit card debt, you can go online and look at your statement. Capital One will, for example, they will show you how long it'll take you to pay it off if you make the minimum payment and how long it'll take you to pay it off if you make this amount. And it's not like some crazy, like 75% more than the minimum, a lot of times it's only maybe 15, 20% more than what the minimum is. And so you can see, at least with the credit card Debt in particular, you can see how much impact that can make.

Dave [00:06:04]:

And I think once you understand the budgets and how that will all work for you, I think you'll start to feel a little bit better. But, yeah, definitely check out Chris Granger's episode. That was very helpful. And I think he had a lot of great advice because he got himself into trouble with vehicles and he's dug himself out of that trouble, and he's got a lot of great advice and I think would be very helpful. All right, so now that you're done listening to us, go open account now. All right, here we go. So, next question. This is from Jonathan.

Dave [00:06:36]:

Hey, guys. I started my investing journey a couple of months ago, and you guys were the very first podcast I listened to. I love your content and how you take time to explain everything. My question is, I'm Canadian, and I mostly own Canadian stock, but I do own Costco and an S and P 500 ETF. I would like to own more US stocks, considering that I'm a defensive investor that aims at long term investing, should I focus only on my ETF or should I pick single companies? My concern is that let's pick Amazon, for example. I think it's a great company to own, but it's already in the S and P 500. So can I keep my ETF and buy single stocks, or should I focus only on one option? Sorry for the big paragraph.

Andrew [00:07:17]:

Laugh.

Dave [00:07:17]:

Continue your awesome work and thanks for your time. So this is a great question from Jonathan. I don't think we've really tackled this lately. So what are your thoughts on how should somebody invest?

Andrew [00:07:28]:

Yeah, we haven't talked about this in a while, but it's the age old question, should I be a stock picker or should I just buy an ETF index fund? I mean, do what you want. I kind of feel like if you're wrestling with it, I almost wonder if that means it's better for you just to be an index funder. An indexer. When I started in my investing journey, the stock picking immediately was alluring to me. And I was aware, I mean, I didn't learn it until a little bit later down my journey is when I became aware that index funds were an option. But by then, I was so bought into this idea of stock picking that I didn't like the appeal of indexes was not the same as the appeal of stock picking for me. And so I was kind of already bought in. And so to me, if I look at my life and then I look at somebody else, I feel like if you are aware of the two situations and the two ups and downs of indexes versus stock picking, if you're not sure that you want to be a stock picker, I'd say you probably should not be because it's not easy.

Andrew [00:08:30]:

It's a very hard thing to do, and you can make more money with it, but it's no guarantee. Whereas with indexing, you're going to compound money at a great rate if you hold it long enough. And that's not even up for debate, really, with most people.

Dave [00:08:45]:

No, it really isn't. And I think to kind of maybe hammer on Andrew's point a little bit more, I think when you're starting out investing, or even if you've done it for a little while, I think you really need to define what your goals are and what kind of investor you want to be if you are. Like Andrew and I, we were both bitten similarly by the same bug. We think investing in individual companies, learning about those businesses, how they work, who runs them, all that stuff is endlessly fascinating. And if that appeals to you, then stock picking would be something you should consider. If all of that leaves you cold, then just picking Amazon because you think you should is maybe not the best way to go about investing. I would probably hazard to guess that could probably lead to way more harm than good and really understanding why are you investing? What's the goal and how much effort and work do you want to put into this? Because if the idea of reading a ten K for five years of Amazon bores you to tears, then don't pick individual stocks. Because the best way to invest in individual companies is to really understand the business.

Dave [00:10:00]:

And the only way you can do that is by reading the financial statements from the company. And if that is not something that appeals to yoU, then ETFs are a great way to go. And like Andrew said, you can compound your money in fantastic ways with those. And that's a great way to invest. And for most people, that's a great way to invest as well. And if you want to do that, and then you want to have 5% of your portfolio that you play with, that you learn about Amazon, or you learn about web three or whatever it is that you find interesting, it's okay to play with that money, but to have the majority of your retirement wealth tied up in I don't know which kind of investor I want to be. I think it'd be better to stick with index funds and ETFs because it's proven in the long run that that's going to be a great investment for you. They're very low cost.

Dave [00:10:56]:

There's not a lot of time and effort that needs to be exerted into determining what's the best and what's not the best. You can go a million different ways with ETFs as well. So it's not just, I don't want to say just you have so many different options to choose from that you can go beyond just buying the S and P 500 if you want to. You don't have to. And you could argue that that maybe is a law of diminishing returns. I'm sure there's a study out there that probably talks about that, but I would stick to the simpler the better. And if you want to invest in individual companies, decide how much effort and time you want to put into it. Figure out what's going to work best for you.

Dave [00:11:37]:

Because what may work for best for Andrew and I may not work best for you. And I think you need to figure out what is the best route for you, Jonathan, and then go that route and just do it. And if you want to buy individual companies, then you want to take a small percentage of your portfolio and do that. Do it. 90% of ETS and index funds is going to get you really good places if that's what you want to do. And then if you want to learn about Amazon and you're not stuck with one choice, I guess is what I'm really trying to say is you don't have to choose one or the other. You can choose both if you want to. It just depends on how much work you want to put into both and how long you want to do it.

Dave [00:12:17]:

And it doesn't have to stay that way either. You can start in index funds and eventually move to individual stocks, or vice versa. It really just depends on what you want for your life and how you want to spend your time. All right, so I'll get off my soapbox and we'll move on to the next question. Here we go. Dear Andrew and Dave, I love your work. I started investing late in life and have really appreciated all the helpful advice and guidance I've gotten from both of you, especially in finding a strategy that works for me. I subscribe to Andrew's E letter and I am excited about learning to do analysis valuations for myself.

Dave [00:12:52]:

On the podcast, I often hear Dave refer to his own investment objectives for his daughter. Having grown up with Whittle and only coming to understand personal finances late in life, setting up something for my children is also important to me. I set up a brokerage account for each of my two daughters, seven and ten years old, and have been following Andrew's stock picks and investing between $100 to $150 for each month for each of them. Accordance with Andrew's monthly stock picks. I have many questions and concerns about if I'm on the right track. First, the account I will set up will belong to them when they turn 18. Watching them grow, I am confident they are going to take the money and spend it on scrunchies and other nail and hair products and as soon as they have access to it. I wouldn't have been much better when I was that age.

Dave [00:13:34]:

Any advice or perhaps an interesting topic for a podcast? Thanks again and appreciate any thoughts that Dave may have in terms of his objectives are and what has worked for him, how I can encourage a basic and sound sense of financial understanding while also encouraging their own financial sovereignty. Warm regards made so this is a great question and I guess it's directed to me, so I guess I'm going to have to answer it first so deep breath.

Andrew [00:14:01]:

Okay.

Dave [00:14:01]:

So I applaud you for opening the accounts and getting started with your kids. And this is something that all parents, I think if they have the opportunity to do, it is a great way to help get our kids started off on the right foot. And it's not just about making them rich so that when they graduate from high school, for example, they don't have to work the rest of their lives. I think it's more about the idea that if you can set them off on the right path so that they can follow their own passions and their own dreams without having to struggle and air quote, work for the man kind of thing, I think is a beautiful thing. And I won't speak for Andrew, but I think he probably feels the same. I don't want to get rich so that I have lots of money. I want to get rich so that I can do what I want, when I want to do it. And that's what I would hope for my daughter, and that's what I would hope for other people's kids someday, is that they have the freedom to do the things that they'd like to do that make them happy and make the world a better place.

Dave [00:14:58]:

And if we can all do that, then I think the world, inch by inch, will get to be a much better place. Am I confident that my daughter will spend the money on scrunchies and other nail and hair stuff? Well, there's a possibility. I mean, we're talking about young people. Like you said, we do dumb things when you're younger. Here is kind of how I have been working with my daughter to try to teach her something about finance. So first of all, I have opened an account for her with Ally Bank. I've opened a checking account for her. It's in my name, but she has access to the card and her name is on the account.

Dave [00:15:36]:

And so I put money in that account for her every month and then she gets to decide whether she wants to save it or use it. And I tried to explain to her on a fairly regular basis that if you don't spend all your money, you can save up for bigger things that you may want. And so then instead of air quote relying on dad or mom to buy the particular thing for her, she can buy it for herself, albeit it's not her money. But you get the point where I'm going as I'm trying to teach her the responsibility beyond just see money, spend money. The idea that, oh, I really want this thing, or I really would like to get this or I'd really like to go here and I can save up the money to do it instead of asking dad for it. It gives her a sense of accomplishment and feeling like she has some independence to spend the money how she wants as far as her stock picks go. So the way that I've done it is I've set it up where I buy companies that she wants me to buy, and then I also buy some companies that I think she should buy, and we kind of go over it together. And she has started asking me questions about, how did Spotify do? How did Disney do? Asking me, has Roblox reported their earnings yet? How did they do? So she's asking me those questions now when I start to tell her, eyes roll into the back of her head and boring, dad, boring.

Dave [00:17:06]:

So I haven't gotten completely through to her, but she's interested enough to start asking me questions, and she's interested enough to look at her brokerage account every once in a while, and I will sit down with her every quarter when the earnings are done, and I will talk to her about how her investments are doing and most of them are not doing great. So there is that. But I like that because it teaches her that what you buy matters and understanding the business matters, and that not selling it also matters, too, because I think we're very early stages in a lot of the companies. Disney's been around forever, obviously, but Spotify and Roblox are newer companies, and the jury is still out on whether those are going to be things or not. And so I think it's okay to hold on to those and see what's going to happen. And that also teaches her patience as well. So she's not just buying in and out of things and selling in and out of things and just trying to do it for the set. I'm trying to set habits that she can follow when I'm not here someday that she can do for herself.

Dave [00:18:08]:

And so that's kind of how I've started setting it up, and hopefully some of these things are helpful. My friend Brian Withers, he wrote a great Twitter post about kind of how he sets up these systems for his kids in investing, and he used monopoly money, and he know different graphics and things like that. And I'll put that in the show notes because I don't remember all of it and I don't want to misquote it, but that was a great resource as well. Okay, so now I've done all the talking. Andrew, do you have any thoughts on.

Andrew [00:18:37]:

This great question from mean, yeah, I agree with you. I think it's super. You know, we could talk about the intricacies and all the different strategies that you can use to maximize the wealth, but I'm kind of in your camp as well, where if you can teach the skills, I wonder if that's way more important than actually having a sum of money to put aside. Again, that's my personal thoughts. If it breaks my heart to see all the stories we've heard of kids who graduate with six figures in debt and they're working at Starbucks or something, that completely breaks my heart. It's so hard to climb out of that, and that's just what I want to avoid for my kids.

Dave [00:19:18]:

Right, exactly. And because a vast majority of this is not taught in public education, there's some, and there's starting to be more. But I think most of us, certainly most of us that are listening right now, have had to learn all these lessons the hard way. And so any way that we can spend a little bit of time to try to educate our kids, I think is a great way to do it. I remember somebody, I was talking to somebody about this, kind of trying to get their advice. They were a little older, and this is before my daughter was born. And they were suggesting that you break the money up into three different buckets. In essence, one was a spending bucket, the other one was a saving bucket, and the third bucket was a giving bucket.

Dave [00:20:02]:

So whether you gave it to charity, whether you gave it a church, if you didn't do with money, you did it with time, those kinds of things. So it tried to teach the children that you can spend the money, you can save the money, which is very helpful, and then you can also help other people. And that can be just as rewarding as spending the money or even saving the money. And teaching all those things, I think, can be very helpful. And I've tried to teach my daughter to try to help other people as well, as much as she can. And she really likes that. She's in a program at school, and they work with them to try to help other people. But I think if you can really kind of master those three ideas, however, works best for your kid or your kids children, I think that will go a long ways towards helping everybody kind of achieve the financial freedom that we all would like to have one day preach.

Dave [00:20:49]:

All right, well, with that, I'll go ahead and wrap up our conversation for today. Wanted to thank everybody for taking the time to send us those fantastic questions. Please keep them coming. You can send them to newsletter@envestingforbeganners.com and with that, we'll go ahead and wrap us up. 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.