Back to the Basics: Investment Strategies for Lifecycle Stages

Dave [00:00:00]:

All right, folks, welcome to Investing for Beginners podcast. Today we're going to do a back to Basics episode. We're going to talk about new to investing. So this is based loosely, roughly, very vaguely on a book that Andrew read by David Rubenstein called how to invest. And we're going to talk about some various topics and kind of present them to investors who are just getting started. So with that, I'm going to go over to Sir Andrew and he'll start our topics off for us.

Andrew [00:00:28]:

Perfect. Thank you for the lovely introduction. And I hope somebody out there finds this to be helpful. So people come into investing and they often ask us, how do you start? How do I start? What do I do? And the first question you got to ask yourself is which phase are you in? So the first thing to think about is, are you in the accumulation phase or the harvesting phase? Because while there can be investments that do really well and can look ideal, your ideal investment is going to depend on what stage you're in. Because like I like to say a lot, there's no free lunch on Wall street. And so investments have trade offs and you need to understand what trade offs fit best, whether you're in accumulation phase or harvesting phase. So for you, Dave, when you think about trade offs and those two stages, how do you look at it for ways that beginners can start to understand it?

Dave [00:01:27]:

For me, I guess the way I would try to look at it is depending on where you are on your investment journey, will really kind of help start to formulate what kind of phase you could be in. So let's say you take two different people. One person is 25, graduated from school recently, has started working in their career and will probably retire 30, 40, 50 years from now. Those people are going to be more in the accumulation phase, you would think, and they would be looking to do things that are going to allow their wealth to grow. And that would include saving money, setting up a retirement fund, setting up an emergency fund, funding their 401k, all these things that they can do to start building that air quote nest egg, to try to get them to the finish line and doing everything they can do to potentially maximize those and deciding what kind of investor they want to be, whether they want to be stock pickers like us, whether they want to invest in index funds, etfs, more passive investing, or whether they want to focus all their financial freedom on their four hundred and one k. And those are all three fantastic ways to do it just really depends on where and how you want to do it. So there's that and then you think about somebody, let's say they're 45, 50 years old and they're closer to retirement, and they've been in their career for a while, but they've been investing for a while. Maybe they want to start looking at trying to start setting up their investment portfolio to pay them income, to start harvesting that money that they've worked so hard to build up over all these years.

Dave [00:03:05]:

Whether that's more conservative investments like dividend aristocrats, whether it's something like bonds, whether it's moving into money market accounts, all those things are options that maybe when you're 25 are really not in play, but when you're 45, 50 can start to be, okay, we're on the horizon now. We need to start thinking about these things because you want to start moving your money into more forms of harvesting ability as you get closer to retirement. It doesn't mean you have to go 100%. You can if you want, but there's a lot of different shades you can play in there, but that's really kind of how I look at it. What about you?

Andrew [00:03:39]:

Yeah, very similar. I think I have few differences in that. Definitely getting close to the harvesting stage. You look at maybe reducing some of your stock market exposure. And the reason for that, and the reason why we like the stock market so much is because the stock market, over the long term tracks the growth of the economy. And so if you're the accumulation stage, you got a long way to go. You have time to weather the ups and downs and the panics and crashes that are associated with the stock market. But you do that and you just let the market do its thing, you're going to be in a really great place.

Andrew [00:04:18]:

The trade off or downside to investing in the stock market is, like I said, we have panics. Sometimes we have bear markets times where the market does not do well for six months, one month, maybe if you're in 2026 months, a year, two years, five years, it could even go like ten years in some of the most extreme cases we've seen throughout history. And so when you are getting close to retirement, let's say ten years or less, you have to start to think about, okay, if I keep too much money in the stock market and we do have some catastrophic thing around the corner, I'm going to be out of money if I need to start selling those stocks off to harvest my portfolio. And that's why you'll see a lot of financial advisors start to put people into bonds as they get closer to retirement. Money markets like you said, Dave, things that are a lot less risk where you don't have the time to ride out the risk. And so I think in general, if you're somebody in the harvesting stage and you're just getting started, me personally, I would highly recommend going to talk to a financial planner because they can look at your portfolio, your nest egg, how much you've saved, also what your tax implications would be for the different things you do. The harvesting phase is kind of outside of my circle of competence. And then if you're in the accumulation phase, you got to be in the stock market, you got to be listening to us.

Andrew [00:05:42]:

You got to go back and listen to our episodes and start to understand why the stock market can be so powerful. And it's not as risky as it might seem on the surface because of the basics, like the fact that it grows as the economy grows. And some of the other topics we can start to discuss for the rest of this episode.

Dave [00:06:02]:

Exactly. Bringing us to what is the next topic?

Andrew [00:06:06]:

So the next thing to think about is investment versus speculation. And I know beginners all look at investing in a slightly different way. I like the example of the elephant. If you had five blind guys touching an elephant, one guy's touching the trunk, one's touching the tail, one's touching the legs, they're all touching an elephant, but they're all experiencing a very different thing. And I think with the investing world, you see this too. And so it can be very helpful to break all the different types of investment you can do into either investment or speculation. So let me start with speculation, and then maybe, Dave, you can talk about investment. Speculation is when you are buying something solely because you think the price is going up.

Andrew [00:06:54]:

There's nothing else in the investment that tells you anything about the future of this investment other than you think it's going up. So when I think of types of investments that could be speculation, I think of cryptocurrency, I think of bitcoin, I think of gold, silver. These assets don't produce anything, even commodities too. So you want to talk about wheat, like buying the physical futures contracts for wheat, oil, whatever the commodity is. Each of these assets are not generating. They're not working for anything. They're not generating anything. People are buying them expecting to sell them at a higher price.

Andrew [00:07:38]:

And actually, that's very different from investing in the stock market or lots of other types of investments. And yeah, there are people who go into the stock market trying to speculate, trying to just buy and sell really quickly. But the essence of that type of investment is different depending on if you're just trying to buy it, to try to sell it higher later, or if you're trying to buy something productive. So that's kind of how I see speculation. Do you have anything to add on the speculation side for?

Dave [00:08:10]:

No, I think that's probably a really good way to think about it. It doesn't produce any income. It's not an income producing asset that you're buying. You're just buying it solely on the hope that the price will go up.

Andrew [00:08:23]:

Yeah, I guess some cryptocurrencies could actually be argued as investments. That's another story for another day. But if it doesn't produce anything, then to me it's a speculation.

Dave [00:08:34]:

I would agree with that.

Andrew [00:08:36]:

Okay, so how do you define investment, then?

Dave [00:08:38]:

Well, investments was the other side of that coin, right. You're buying assets that produce something. Cash flows, earnings, products, services, things that make us want to buy them. Google, Microsoft, Netflix, Nike, Walmart, Amazon, all those companies. You could argue that you speculate on them a little bit, like when they're ipoing and you don't know what it's going to be. But in reality, what you're buying is you're buying a company that's producing something that you can forecast sometimes how well it's going to do in the future, and you're of course, expecting that to go up. But the price of that asset that you're buying, whether it's a bond or whether it's a stock or any other real estate or those kinds of things, is really based on the value that it derives from producing something that people want to buy. And as that goes up, as they become more productive, then you partake in the success of that business.

Dave [00:09:37]:

So when I buy a piece of Microsoft, I'm buying a part of Azure and the cloud and all those things. And as Satya, Nadella and team execute on their plans, then I get to benefit from that and I don't have to do any heavy lifting or hard work. And to me, that's what investing is, is you're partaking in the economic production of a particular asset, whatever that may be.

Andrew [00:09:59]:

Yeah, that's very well said. And even real estate, like somebody's house, for example, maybe you didn't set up a cash register right next to your kitchen or anything, but if you think about real estate, you can rent out a room and it can very easily produce income. And so I think a lot of the main categories of investment have that all in common.

Dave [00:10:23]:

Yes, totally agree.

Andrew [00:10:24]:

How do you keep away from speculating when you are picking stocks. Do you think there are some stocks that are speculation?

Dave [00:10:33]:

I don't know that there's any stocks that are like a pure speculation, but there certainly can be stocks that you speculate on, because you don't, especially when you're thinking about ipos or companies that are brand new to the market and they don't have a track record or a company we talked about in the past, it's kind of moved past that stage now. But a company like Rivian, when they went public, that was really largely a speculation because at that point they weren't producing anything. And so people were basically buying the company in anticipation of it being the next Tesla. Whether or not it's ever going to be that. The jury's out, but they are producing vehicles now, so they're generating income, and it's an income and producing asset now. But you could argue that that's a speculation. You could argue that buying some of the companies that were during the SPAC phase or the ipos phase were speculations because you were betting on the price going up, where you really didn't have much economic history to go on whether the company was good or bad or not, because it just didn't have a track record.

Andrew [00:11:38]:

I think for guys like you and me, speculation is already like a bad word to us. But why is that a bad word to somebody who's just getting started? Why should they avoid speculation?

Dave [00:11:48]:

I think you need to avoid speculation simply for the fact that it can be extremely volatile. And those are the situations where you can go to zero a lot quicker than others. You can lose money on buying Johnson and Johnson, depending on the valuation and where you buy it, but the chances of it going to zero are fairly small. But when you're buying a company right out of the gate that's brand new, doesn't have a track record, like know, buying that or buying Johnson Johnson, that's definitely a speculation because it could have gone to zero, they could have not done anything and it could have been a complete bust. What's the company that just got in trouble that didn't produce anything? The guy rolled the truck down the hill for their demonstration. What's that?

Andrew [00:12:31]:
Was it Fisker?

Dave [00:12:33]:
No.

Andrew [00:12:34]:
Oh, Nicola.

Dave [00:12:35]:
Yeah. I don't know if they're bankrupt, but he's in jail now and I think they're going to be bankrupt if they're not already bankrupt, because they haven't produced anything. And that's the kind of thing that is definitely a speculation.

Andrew [00:12:47]:
Yeah, that's very well said and appreciate you laying that out. I guess the next categories to kind of think about when you start to think about investing, I know it can kind of be shrouded in this complexity sometimes, and it can kind of almost seem like a little bit exclusive. And so there's this idea that we have everyday retail investors like Dave and I, and then there's also accredited investors. And so basically what accredited investor means is you have a certain dollar amount in your bank account that you're able to invest. And basically that allows you access to other types of investments that the retail investor doesn't have. So alternative investments like private equity would be a good example. Other services like security based lending, you hear the rich being able to borrow off of their stocks and cash flow, blah, blah, blah. These are the types of things that are more available to high net worth individuals.

Andrew [00:13:48]:

And I wouldn't say that they're necessarily better than what's available for retail investors. You just have to understand that there are more opportunities and different opportunities for accredited investors, but there are also the same trade offs that you see in other types of investments. And so it is just kind of on that spectrum. And so if you're discouraged because you're not able to get into private equity, for example, I would argue don't be discouraged because it is a different type of investing with different risk reward profiles. And some of that stuff can be more risky than even an IPO, depending on what kind of debt they're using, and all of this. So investment partnerships may be another example. So not much to say on this section per se, but really just I think that's important to understand when you're first getting into investing is like, yeah, there are a limitless number of options, but I would say understanding the retail investor side of investing can be enormously successful and help you in all sorts of types of investing, particularly if you can start to understand the risk reward profiles of different assets, because you can take that skill set with you and apply it to any kind of investing. There's no way to kind of shortcut that other than getting somebody to teach it to you or learning it the hard way.

Dave [00:15:12]:

Right? Exactly. I think really the only thing that I would probably throw out there in regards to institutional investors versus retail investors, if you think about the richest people in the world, I think all of them, or at least the top ten, are all business owners, and they're not people that are investing in alternative investments and have all the stuff. They may have small portions of their personal portfolios in that but their public portfolios are all public companies. So that to me tells me that we can do well and succeed by investing in public companies and partaking in their success. So investing in Berkshire Hathaway or Google or Microsoft, to use a few examples, the better they do as we as investors, the better we'll do in the long run. And I guess the way I look at it is if my available opportunities is 50, just for example, my error rate will be lower. If I have 300 opportunities, then my chances of making a mistake are bigger. And private equity, I know, can be very lucrative, but it can also be very hit or miss.

Dave [00:16:22]:

And you also have to think about the number of small companies that you can invest in in private equity. How many of those actually go public at some point? A very small amount. And how many of those actually fail? A very large amount. And so it's not the panacea that it can be made out to be. Yes. Can it be a great way to invest? Absolutely. Of course it can. But I don't think you should feel sorry for yourself.

Dave [00:16:47]:

If I can't invest in that, I can't do it. Yeah, you can. You can go out and buy Berkshire Hathaway and SP 500 and call it a day, and you can do very well for a very long period of time. So I think there's lots of opportunities. You just have to embrace the ones that you have available and work with what you got, and you can do very well with that.

Andrew [00:17:04]:

I actually like the story of Steve Bomber. I don't know if I haven't seen if this is actually true or not, but I just felt like it's been floating around the interwebs, but that he's been vaulting up the most richest list just because he has the Microsoft stock.

Dave [00:17:21]:

Right.

Andrew [00:17:21]:

And even though the company didn't do good while he was CEO as far as the stock, he still kept it. And now the stock's obviously been ripping off and he's just continuing to rake it in. I think it's so inspiring.

Dave [00:17:34]:

Yeah, exactly. Yep, I agree.

Andrew [00:17:36]:

All right, so let's go to the next big decision that investors will make. So this is kind of similar to the first point accumulation versus harvesting, but really when it comes to stocks versus bonds, I'm hoping we can break that down and make it a little bit more tangible. I think generally people think of bonds as less risky, but kind of like stocks bonds. And then you mentioned money markets. Maybe that's a good example, too, investing in the long term for each of those asset classes. How do you kind of approach that and try to explain it to somebody who maybe they hear bonds and the fact that you get a coupon every year, and that sounds super appealing. Maybe the money market sounds appealing. So why do people tend to pick stocks or bonds or money market accounts? And what are the differences between the three?

Dave [00:18:30]:

Well, yeah, that's a great question. I think for me, the easiest way that I try to look at it is if you look at the three categories, you kind of look at them as stocks have greater potential to do well, but they also have a lot more volatility. Bonds have a good ability to grow, but not the same as you would get with stocks, but you also have less downside risk. You have less opportunity to do poorly in bonds than you do with stocks. And then money market accounts are probably like a step above a savings account where they're very safe, they're very secure, but you're also probably not going to make, your earning potential is less with probably the least of the three, but it offers a lot of great security. So if that's really very important to you, then that can be an asset that you can use to kind of provide that security for you, to help you sleep well at night. I guess that's kind of the three ways that I look at it.

Andrew [00:19:23]:

Yeah, it's great. So would you say kind of going down that ladder of kind of risk and return, would you say that corresponds, so highest returns for stocks, middle returns for bonds, and then lowest returns for money markets?

Dave [00:19:39]:

Yeah, absolutely.

Andrew [00:19:40]:

I would agree, too. I would say just in a normal environment, that's what you would expect right now. Things are wonky because the yield curve is a little inverted. But.

Dave [00:19:50]:

Right.

Andrew [00:19:50]:

Eight out of ten years, that's what you'll see.

Dave [00:19:52]:

Right, exactly. We're still working through everything that happened with the pandemic, and so everything is normal. Nothing is normal. We're not in an air, quote, normal time, but we're also coming off a not normal time. So some of the stuff has still got some time to play out. But generally that's kind of how I would rank the three assets.

Andrew [00:20:13]:

Yes, me too. All right, so that gets into the next fun topic, which we could probably discuss until the end of time and never come to the right solution. But stock picking versus index funds, why is there such a venomous opposition between the two camps? It's like you're either one or the other, and the other side is doing it wrong. If you're not on their side, what's the deal with that? And maybe we could start there before deciding how somebody can figure out which camp they want to be on.

Dave [00:20:44]:

Yeah, that's a whole big can of worms that I don't know that we really wanted to go into. But I think to me it boils down to probably hubris is probably the easiest way that I could describe it to beat the stock market, which is what stock pickers are trying to do. You have to have a certain amount of hubris or ego to think that you can do better than so and so. That probably comes off as cocky and arrogant to people that are using index funds to invest. And those people, their expectation is to do as well as the stock market does. So if it does 25%, they do 25%. If it does negative two, they do negative two. That's kind of the idea behind index etfs, is to kind of mirror or match the index or the market that they're trying to track.

Dave [00:21:37]:

Not being one of those people, indexer, if I had to assign a name, not being one of those people, I'm not sure what their venom is towards individual investors like you and I, but I can imagine that that's part of it, is that they think that we think we're better than them. And a lot of times you'll see or hear other people talk about individual stocks versus etfs and kind of be dismissive of people that invest in index funds and don't really consider them air quote investors because they're not reading ten ks and running valuations and stressing about what kind of moat the company does or doesn't have. So they think that individual investors are dumb dumbs for putting themselves through all that stress when they can just not just, they can buy the s and P 500 and earn 12% a day or a year and call it a day and go on and do other things with their life. And when you think about it in those terms, maybe they're not wrong, but I think it really comes down to what do you want to do? Investing in the stock market is the best way to grow your wealth. We've kind of all established that. But to me it comes down to what kind of investor do you want to be and how much effort and work and enjoyment do you want to put into this. If you want to be somebody that buys two things every month on a regular basis, doesn't have to do any work, and calls it a day, then etfs and index funds is absolutely the way you need to go. But if you're interested in learning about the intricacies of how SaTi Nadella drives Microsoft to do what they do, and you find that fascinating, then picking individual stocks is probably something you might want to consider.

Dave [00:23:20]:

So that's, to me, maybe the groundwork for it. What are your thoughts?

Andrew [00:23:24]:

Yeah, it's almost like you've talked to people on both camps and you found.

Dave [00:23:29]:

Maybe a little bit.

Andrew [00:23:31]:

That's cool. I love it. I agree with you. I think there's a lot of potential for the people who can beat the market, but it's obviously not easy. And obviously, by definition, you can't have more people beating the market than not. So you do go into it, understanding the ods are against you, and to your point, at that point becomes a personal decision. What's your risk tolerance? What do you enjoy? And you enjoy the trade offs that come with that. And I think in the camp of like, yeah, it does take some hubris, right, to kind of step out on that ledge, but at the same time, why be a crab in the bucket and try to drag somebody down who's going to try that, right? Like, what are they hurting by stock picking? Unless they're managing money for other people and they absolutely don't know what they're doing right.

Andrew [00:24:20]:

Outside of that. Let the people try.

Dave [00:24:23]:

Let the people try you. Do you?

Andrew [00:24:27]:

Yeah. I don't like that phrase usually. But.

Dave [00:24:31]:

I think it comes down to if you want to spend the time learning about companies, like how visa does what it does or why Costco is such an amazing business, then I think you're willing to spend some time to learn about those things, then individual stock picking is for you. If you also want to invest in Costco, but you only want to do two minutes of work, so to speak, on a particular company, then you're barking up the wrong tree. Because you may get lucky and find some success with a company or two or three, but overall, over a long period of time, unless you just get lucky. And yes, there are people that win the lottery. There are also people that could succeed in the stock market by doing that, but they're rare and they're very few. And if you don't want to spend that time, the thought of reading a ten k leave you cold, then I would encourage you to look at using index funds and etfs as your investment vehicle, because that is the best way for you to go to live your life and be happy and be successful. And nothing will drive you more crazy than trying to invest the way that Andrew and I are doing and not be willing to do some research, look at companies and try to learn the ins and outs of how the business operates because you're just setting yourself up for frustration. And like we were talking about yesterday with Jeff and know the definition of insanity is doing the same thing over and over again and expecting a different result kind of thing.

Dave [00:25:58]:

So I would encourage you to really figure out what kind of investor you want to be and then follow that path. And it's not that this one is better than that. Know, I believe the stock picking is better, but that's just my own opinion. And you know what you can buy with opinions, not much.

Andrew [00:26:15]:

I would love to see investing clubs kind of make a comeback. Apparently that was a thing. I mean, I was an investor back in the 90s during the heyday of the.com and stuff like that. But I do think there's a little bit of. What's that bias? The myopic.

Dave [00:26:30]:

Myopic bias, right.

Andrew [00:26:32]:

So it's like somebody might say, oh, well, the time spent is not worth it to me. I'm just going to index. Fine, that's cool. Maybe somebody else has like three or four friends and family and they all want to pool money together and assign one person to be the stock picker, and that one person's time is just multiplied by four and now all of a sudden becomes really useful. I'd love to see that make a comeback. I mean, if there's companies out there that make the process of setting up an investment partnership and gathering money and doing things like that, where you can have just small teams of money being invested by one stock picker or two stock pickers, whatever it is, and these small, kind of decentralized little pods of money, I think that would be so cool for the investing world.

Dave [00:27:20]:

Yeah, it would be. It would be awesome. It'd be super helpful to have something like that because I think the feedback that you get from other people and being able to access information and knowledge from other people would be so incredibly helpful.

Andrew [00:27:35]:

All right, so somebody with Huberus out there, he's got that entrepreneurial spirit. Go create it. Send me an email and we will talk.

Dave [00:27:43]:

How about, yes, I agree.

Andrew [00:27:46]:

All right, I guess we'll move on to the last one then. And I'm going to make it so much easier for you here, Dave. Let's close it out with a bang. The vitriol between the camps who are growth stock investors and value stock investors.

Dave [00:28:01]:

Oh, boy.

Andrew [00:28:02]:

Break that down and let's talk about that for a minute.

Dave [00:28:06]:

Okay. So I guess maybe we can define them before we break them down. So growth investors are investors that invest based on the idea that the company is going to continue to grow faster than the economy, for example, and that they're betting that they buy it now and they can sell it at a much, much higher price based on the growth of the company, because the market will reward that company for growing faster than other companies. And things like profits and free cash flow, any sort of metrics, capital allocation, those are not as important to growth investors as a general rule. And so it's really all about revenue growth and nothing else. And you will see this is where a lot of the meme stocks come from. And you also see a lot of the growth or bust kind of to the moon kind of ideas. And that's really where that plays in.

Dave [00:29:08]:

I guess the flip side of that is the value investors who are looking generally to buy a well established, profitable, growing company at a discount. So kind of like buying your socks at Walmart, you want them on a deal, you want Google on a deal, too. So that's really, to me, kind of the breaking down of it. So where does the vitriol come from? Well, if you think about it, just they're diametrically opposed kind of right from the get go. One is all about growth and nothing else. And the other one is all about the value of the business. And that encompasses the prices that charges, the margins that it earns, the free cash flow, the strength of the balance sheet, the returns on invested capital management, their decisions that they make with the free cash flow that they generate, all those things are very dear to value investors hearts. The growth investors think those things are kind of a waste of time because all it's about is growth.

Dave [00:30:08]:

It has to reinvest to grow. So that's part of really, you know, the management, a lot of them will wax eloquent about how great the managers are, but frankly, all they're doing is just driving the company forward. I saw this great infographic on Netflix recently about Uber and the start of Uber, sorry, dogs in the background, they're going crazy. I apologize, everyone. A leaf floated by, and so now they're going nuts. So I apologize. Growth investors are really looking for growth. And like the Uber company, I was talking about Travis Kalnick, who was the CEO who drove the company to become a verb.

Dave [00:30:46]:

He was a great CEO to run the company to that point, but to get it to where it is now, he was not the right guy. And without going into all the nitty gritty of the culture that he created and everything, if you watch it in Netflix, I think it's called super pumped. And if you watch that on Netflix, you'll get a very good idea of what I'm talking about. But my point is that he was the perfect investor or the CEO to drive the company forward, but not to grow it to profitability and make it a sustainable business. Those are the kinds of ceos that growth investors want, these diehard, go get it kind of aggressive managers, but they may not necessarily be the right ones to manage the company for 30 years because nobody, even Amazon, can't grow for 30 years.

Andrew [00:31:27]:

Yeah, that's very well said. To overuse a term today, what are the trade offs of each style? Because I think we've certainly seen some growth investors do very well. And there's been some public value investors who've done very well, Buffett and Munger being obvious ones. What are some of the tradeoffs that come with each strategy?

Dave [00:31:50]:

Well, I think the easiest one to think about as far as relating to growth investing is the biggest trade off, is the big way that you can really win in that strategy is by timing the market. And because you've got to try to find the greater fool to sell to once it turns, once the growth turns, once it stops, once the momentum starts to go the other way. The way to be successful is to get out quickly, and that involves timing the market and some of those ideas. And that to me, is something that's impossible to do. And it's just not a game that I want to play where value investors are more about the investing for the long term. Having a long term horizon, that's one of the biggest opportunities individual investors have is having a long time horizon, because the longer you hold the company, the greater chances you have of being successful with that investment. And with growth companies, a lot of times you get a lot of growth, but that won't be sustainable. And the long term outcome or outlook for the company will not.

Dave [00:32:59]:

You won't get that kind of return unless you get out at an early time. You look at Zoom during the pandemic. It grew hundreds of percent during that period of time. Big revenue growth, everybody was on a Zoom call is huge, but it was not sustainable. And so I'm not saying that it's a bad investment, but if you bought it at $150 a share and you didn't sell out at $450 a share, now you're crying in your milk at $22 a share. And getting back to that $150 is if you bought it now, maybe you could do okay, but if you bought it during that period, no. So I think you got to keep those things in mind. To me, that's the downside of growth investing.

Dave [00:33:40]:

To you, what is the downside to value investing?

Andrew [00:33:43]:

Great question or trade off? Yeah, that's excellent. I would say the downside is you're probably not going to get a grand slam, bottom of the 9th game winner in the World Series, game seven. It's very unlikely, if not impossible, for you to take $1,000 and turn it into a million dollars by doing value investing with a single investment. What it is more like is kind of slow and steady. And if you can beat the market over time, through the years, maybe not by much, but slow and steady, then if you zoom out 2030, 40 years, that's where you can look back and be like, wow, the difference was huge, but it's so slow that I think most people don't want to do it or just don't get excited by that prospect. So I feel like that is the trade off. And certainly I think there's obviously a lot more excitement that goes with growth stocks. There is obviously a lot more, maybe popularity, a lot more status that can come from picking the right growth stocks.

Andrew [00:34:58]:

And you just simply won't get that with value.

Dave [00:35:01]:

Exactly. That's very well said.

Andrew [00:35:02]:

And by the way, you could also do value investing poorly and lose, just like a growth investor would lose. So you do have to be careful and you do have to do the work.

Dave [00:35:11]:

Yes, exactly.

Andrew [00:35:12]:

All right. So kind of wrapping it all up for a beginner, if there's one takeaway that you could give them, please give it to them and take this baby home.

Dave [00:35:22]:

Okay. I think the one thing that I would say to somebody that's new is you need to decide what kind of investor you want to be, and you need to decide how you want to invest. And it doesn't mean that you can't change. But to start, you need to figure out what kind of investor you want to be. Embrace that and try to learn as much as you can about that particular style of investing, whether it's index funds, whether it's individual stocks, whether it's bonds, whether it's money market accounts, whatever it may be. You need to figure out what kind of investor you are and make sure that you do the steps and the things that you need to do to be successful in that particular genre of investing. If it's individual stocks like Andrew and I like to do and suggest, then you're going to have to put in some work to learn about financial statements, how companies operate, reading financial statements, understanding how the stock market works. All those things will have to go into it.

Dave [00:36:19]:

If you want to do index funds, you still have to learn some of those things that we talked about, like how companies work, how etfs are constructed, what kinds of fees they charge you and where you can buy them and how the mechanisms work. But once you understand those, then you can kind of set it and kind of just kind of keep working on it. No investing will allow you to just set it and forget it. You do have to pay attention, doesn't mean you have to pay attention every single day, but you do have to pay attention at least once a quarter, once every six months, at very least once a year to at least have an understanding of where you are and how things are going. And I think once beyond that, then you can kind of really start diving down the rabbit holes of each particular way. But for me, I think if I was telling a family member that came to me and says I want to start, I would say, don't worry about whether I should pick apple or not. Figure out what kind of investor you want to be, how much work do you want to put into this, what appeals to you, and then go with that. And then you can branch out from there.

Dave [00:37:20]:

But I think that's the best way to start. What are your thoughts?

Andrew [00:37:22]:

No more thoughts.

Dave [00:37:23]:

I have nothing else to add.

Andrew [00:37:25]:

Yeah.

Dave [00:37:27]:

All right. Well, with that then, folks, we will go ahead and wrap up our show today. I hope you enjoyed our back to basics episode on how to invest. This has been very helpful for us, and hopefully you guys will find some value as well. 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.

Dave [00:37:48]:

Bye.

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