IFB332: Listener Q&A - From Paycheck to Paycheck and Starting to Invest

Dave [00:00:00]:

All right, folks, welcome to Investing for Beginners podcast. Today we have episode 332. Today we're going to answer a few great listener questions we got, and with that, we'll go ahead and just dive on in. So here we go. I have no debt, no credit cards, and no student loans, but living paycheck to paycheck to pay utilities, rent and bills. What advice do you have? Should I to start saving for my retirement? This is from Danny. So, Andrew, what are your thoughts on this? Excellent question.

Andrew [00:00:31]:

Well, first off, Danny, you are in such a good spot, like to have no debt, no credit cards, no student loans. That's awesome. You have a clean canvas, and not all of us have that opportunity. So bravo. I would say if I had to rank different wealth generating opportunities for most people, the average investor say number one is probably a 401k. Number two is probably get yourself a good piece of real estate to live in the house. And then number three is Roth Ira and stocks and things like that. So if you can find a job that gives you a, if it gives you a 401k match, that's where you got to start.

Andrew [00:01:12]:

That's going to be the best place to start out of anything else else. And so finding that, I know it's a lot easier said than done, but if you can work to become skilled, find skills that people pay for work to become skilled, and then look for jobs where they will offer you benefits like a 401k, that's going to put you ahead, especially if you can contribute more and more and more and advance in your career, that will do a lot of great things for you. What do you think?

Dave [00:01:39]:

Yeah, it absolutely will. And Bravo for having no debt, no student loan. Those are big shackles for a lot of people when they're starting out. And to not have those things is going to be very beneficial for you in the long run. And so that's awesome also that you're reaching out to us to ask us how you can start building your future, I think is also a great mindset to understand that, hey, this is something I need to do. A lot of people out there know that they need to start investing. A lot of people know they need to stop smoking. A lot of people know they need to exercise more, all those things.

Dave [00:02:14]:

And unfortunately, few people start those things. So I applaud you for starting out the game of starting to invest. And I echo everything Andrew was saying. Start with a 401. If you have a job that has a 401k, if you're not investing in it, start tomorrow to doing it. We're recording on a Thursday. Go on next day, Friday. When you listen to this and start open your account.

Dave [00:02:38]:

If they have a match, take advantage of it. We've talked about this in the past. That's free money that you're passing up. So anybody out there that is not investing in their 401k that offers a match, please go do so, even if it's only 3% or 6%. The cool thing about it is, the way that they do it is they take the money out of your paycheck before it hits your bank account, so you don't even see it. And so this is something that can silently grow for you for a very long time. And it can become a really big nest egg a lot quicker than you think it can, partly from the power of dollar cost averaging. By continually putting money into the account and the match, just them giving you that extra money is a nice boost.

Dave [00:03:17]:

The way they did it at Wells Fargo was every quarter. And so I think every quarter you get a bonus. So you get all this free money that they put in your account. It's pretty awesome stuff. So I know that when I worked for the bank, I think I was able to get my four hundred and one k to around $20,000 or so in less than four years. And so that was awesome. That's fantastic, and I applaud you for doing that. I guess the next part of it is, if you're going to invest in the stock market, then I think you need to figure out what kind of investor you want to be.

Dave [00:03:49]:

Do you want to be somebody that picks individual companies like Andrew and I do? Do you want to do the work that's required to be good at that? Because it's not something you can do on Saturday afternoon from two to four, you can. But if you're intending to buy 2030 companies, it may take you a while to get to the level where you want to. And again, if that's really what you want to do, then more power to you. But I guess my point is that you have to understand what game you're trying to play and what do you really want to accomplish out of this if you want to invest, because you know that's the best way to grow your wealth and the 401K fits your needs. By all means, invest in your 401K. Call it a day, and go on and do other things if you want to invest in the stock market. But the idea of reading a ten k or financial reports, or learning how UnitedHealth makes money leaves you cold. Then investing in index funds and etfs is the way to go for you.

Dave [00:04:53]:

And for most people, frankly, that's a best way to go. And there's nothing wrong with that. The market has returned 1011 12% over the last three years and who wouldn't want that? If that compounds over the next 30 or 40 years, that's a pretty good, nice chunk of change that you're going to earn. And so I guess my point is that you really have to figure out what kind of investor you want to be to start playing in the stock market. And there's lots of different avenues to pursue depending on which lifestyle you really want to embrace. And so once you figure that out, then really go into it and do what you need to do to start building your nest egg. And there's fantastic resources out there to do all three of those different things. And there is no one that is air quote better than the other.

Dave [00:05:45]:

Andrew and I like individual stocks because we think that we like the game, we love learning about companies and we think that's the best way to grow our wealth. But we're also willing to put in the time we're going to do the reps that are necessary to get where we need to go. I think if that's not what you want to do, then do the other way. And for whatever reason, there always feels like there's a shame in not picking individual companies. And I think that's BS. And so I think you need to figure out what's best for you and embrace it and do it. And by starting off with no debt, you're in a great place to start. Danny.

Andrew [00:06:20]:

So kudos to don't know. I don't know how old you are, Danny. Something I haven't said in at least a couple months. So I'll throw it out there because it's something I've said since the beginning. You don't need a ton of money to start investing and you can actually generate a ton of wealth from a little bit of money if you have a long time horizon. So the one thing I've kind of hung my hat on this whole time is if you took just $150 a month and you put that into the market, and if you can earn 11% on that money over 40 years, I know it sounds like a long time, but the compound interest on that money growing at 11% a year, it turns into a million dollars and we're just talking about $150 a month. As you get into your career and you have a bigger earning power, hopefully you can invest more and more and more and your wealth can even multiply from there. So there's a lot of benefits to being in the stock market.

Andrew [00:07:15]:

It doesn't need to be a risky place to be in if you can understand how it works, how to do it correctly. That's what our show is here for. Ton of opportunity. So I would recommend building skills. There's probably other podcasts out there that help with career and networking and advancing and getting more income and stuff. And then also just starting early, if you can, and putting money away and being consistent, building it, making it into a habit. This isn't something you're just going to figure out do tomorrow, and then you're done with it for the rest of your life. This is a lifelong thing.

Andrew [00:07:50]:

You always have money around you, build the habits, do the right things, and I think you'll be very happy with the results.

Dave [00:07:57]:

Yep, I agree. I think a lot of people think that they need to hit it big or find the next Amazon, Google, Netflix, whatever. Insert company b here. If you improve 1% every day, as James clear talked about in his fantastic book atomic habits, you will markedly improve your life. Whether it's with health, whether it's with finance, whether it's with building your knowledge. All those things compound. And so if you just give yourself the opportunity to compound, you will improve in immeasurable ways in your life. And so I encourage you and anybody else that's listening out here to kind of embrace that idea that if I can just get a little bit better every day, if I can do 22 push ups instead of 21 the day before, that's 1% better.

Dave [00:08:45]:

And if you can do 23 the following day, that's 1% better. You don't have to go from 20 to 722 in a single day to improve your health. And so I think what gets lost in our hurry, hurry, rush, rush lifestyles now is that by just being consistent, showing up every day, doing the work, you will improve, you will get better every single day. I'm going to give you a real story here. One of my favorite basketball players was a kidnapped guy, a guy named Jeff Hornsek, who most of you, yeah, most of you out here, other than Andrew, are probably like, who? So he played for the Utah Jazz and the Phoenix Suns, and he went to Iowa State, which is where I grew up. And he was far from the most talented basketball player out there. Far from it. But he was good and he had some skills, and he excelled at Iowa State.

Dave [00:09:34]:

But when he went to the NBA, he wanted to up his game. And so he and his wife every day in the offseason, went out and shot 10,000 shots a day. 10,000 shots a day. And he transformed himself into a pretty good player to an all star who ended up having a great career and competed with guys like John Stockton, Carl

Malone, Michael Jordan, and was able to play with those people on an even level. Was he Michael Jordan? No, of course not. But my point with all this is that he put in the effort and he tried to improve a little bit every single day. And if somebody like he can do that, then we all can do that. And to me, I've always found that very inspiring.

Dave [00:10:18]:

And so I think that's something that you need to always kind of keep in mind when you're trying to start off anything new is that just try to improve a little bit every day and you'll be astonished at what you can accomplish in a short amount of time.

Andrew [00:10:30]:

I love that example. The younger generation might not picture who you're talking about, but not exactly like the most athletic specimen that you'd expect to see in the NBA.

Dave [00:10:42]:

No. If you saw pictures of him, if you google him right now and look at him and go, that dude was an all star. Really? Yeah. Yeah, he was quite good.

Andrew [00:10:48]:

I love that.

Dave [00:10:49]:

All right, so let's move on to the next question. So here we go. After listening to you all for some time and reading multiple books from Peter Lynch, I find myself scratching my head when it comes to the below. So there's two parts to this. So the first part is the best way to approach when to sell a stock. And this is from Ryan. And I found Ryan on LinkedIn to find him. He reached out to me on LinkedIn.

Dave [00:11:09]:

So, Andrew, how do you approach when to sell a stock?

Andrew [00:11:12]:

Yeah, it's a great question, and I do think, Ryan, it probably will be a little bit personal to you, and if it changes over time, I think that's okay, too. But I think spending the time to establish a selling discipline in your stock picking, I think that's going to go a long way. And to mean, I don't know. I've had it for so long that it's kind of become second nature. But I do wonder if that alleviates some of the anxiety I have around the stocks I own. Steno is like, all right, if things go wrong, I make a mistake, I have an exit plan. One of the things that my own terrible story, not your stories, were good. When I first started getting really serious in the squatting and doing a lot of weight, that's really terrifying for somebody like me who had not squatted before, and one of the guys I'd followed online made the recommendation fail on purpose.

Andrew [00:12:06]:

So put the little rail things that catch the bar and then just fail on purpose and see what it's like. And then when you realize they're like, oh, yeah, these things actually catch you. There's no pain from failing. All of a sudden, it's like, okay, well, I can push and really try to lift a lot of weight, and I'll be okay. So kind of like knowing what the worst case scenario is helped alleviate some of the anxiety for myself. And so I think if you can do that for when to sell a stock, that might help you hold on to stocks and be confident when you do buy stocks. One of the systems that I started to implement very early on was, all right, I have some situations that are going to make me consider either completely selling this or really looking at a stock. And so for me, that's if a company goes from positive earnings to negative earnings, and if they cut their dividend, if there's not a good reason for doing either of those things.

Andrew [00:12:58]:

So for a company to go from positive earnings to negative earnings, it means they once were profitable and now they're not. That's usually a sign that, okay, something's going on here. Depending on the type of stocks you buy, that might not be a great strategy. But I found that for me, I tend to stay away from those type of stocks that have huge swings just because that's how I like to invest. And so that worked for me. Maybe for somebody else, it looks differently. I think there's a lot to be said for having rules and boundaries and whatever those are. If they're based on history and what you understand about the history of the markets.

Andrew [00:13:34]:

I think looking at earnings and looking at dividends is a great place to start. How about you? Do you have things that make you consider selling the stock?

Dave [00:13:42]:

There are a couple of things that I think about. Number one, I've talked about this a little bit in the past and throw this out there again. I read this recently, and this is, I think, a phrase that really kind of stuck in my head. And I think it's really good way to kind of think about the whole idea of selling. So this person said, when you buy, you should buy slowly. When you sell, you should sell even slower. And I really like the kind of the concept and the idea behind that because I think a lot of people make the knee jerk reaction to sell when there's something bad happening either at the company per se, or in the overall market economy, global news, whatever it may be. And Andrew talked about this in the last episode, where the idea of macroeconomics can there's always something bad going on, whether it's something poor news from some particular economy or whether it's the unfortunate news that there's a war or wars going on.

Dave [00:14:46]:

There's always bad news, and there's always an air quote reason to sell. But I have found that the best reason not to sell or to, I guess a filter is to think about has anything fundamentally changed about the business? Has the company that you're talking about gone from selling this particular service or this particular widget to selling pizza? And it's like completely opposite to what it is that they do. And if that's not the case, then I try to really think more about the reaction of what it is the business is trying to do and how is this news really impacting the company? And a lot of times you will read, if you go to any particular website, it doesn't matter which one, you'll see all kinds of different commentary and news about this company and that company. And sometimes it's warranted, sometimes it's justified, but sometimes it's not. It's just so and so has, you have to realize that everybody has a motive and a motivation. So somebody that may be super negative on the company, they may have owned the company for a long period of time, and they've been burned because they haven't gotten a good return from the company. So now they're bitter. They're bitter about the company.

Dave [00:16:08]:

And so anything that comes out of their mouth is going to be negative. And if you read that and you react to what their reaction is and their situation is, without doing your work and your due diligence on why that particular company is bad, then you're just kind of feeding into the herd mentality. You're following where everybody else is going. And to be a productive, long term investor, you really have to embrace some idea of contrarianism. It's easy for me to say, and you really have to understand why it is you own a company. That's why I kind of preach this idea of writing something down, putting it on your iPhone notes or writing it on a Google Doc or a word document, or putting it out online, social media, whatever, somewhere where you document, why did I buy this company and why I really like this company, or I don't like this company? Because when you document it like that, our memories are not as great as we think they are. And sometimes in the heat of the moment, we may think, oh, I thought this, but you really didn't. And so if you go back and have that documentation, you can look back at yourself and go, oh, okay, that's what I said.

Dave [00:17:24]:

And that can help sometimes avoid you kind of going with the herd and buying it. I would say probably selling is probably the hardest thing to do. Investing. I think buying is easier because it's easier to be excited about a company. It's far, far harder to sell something, especially after you've owned it for a while or really liked it. The product, the stock, you've made money on it. All those things can leak into our bias about what we feel about a particular company. Let's say that the CEO is somebody we really like and admire and they leave and the person that takes their place is maybe even better and even more qualified than the other person, but we sell because the leader left.

Dave [00:18:12]:

This is something I'm going to have to face probably unfortunately, sooner than later, is that Charlie Munger has passed and at some point Warren's going to pass and he's not going to be driving the bus with Berkshire. And that's one of my best investments and I'm going to have to deal with how do I deal with that? Am I automatically going to sell? Nope. But it doesn't mean that I'm not going to certainly watch it a lot more closely maybe than I do now. So I think there's lots of different reasons why to sell. And I know Peter lynch has some good ones. One that I would really look at would be Philip Fisher. He wrote a book called common stocks and uncommon profits and fantastic book. And you can find his checklist both to buy and to sell with a simple google search.

Dave [00:18:56]:

And he has some great rules, like four or five rules that you can kind of use to adhere to help you kind of guide your selling decisions. So those are some of my thoughts.

Andrew [00:19:05]:

Yeah, if I could just beat that horse one more time.

Dave [00:19:08]:

The idea of way, baby, that idea.

Andrew [00:19:12]:

You ask yourself, has anything fundamentally changed with the business?

We hope you enjoyed this content. Seven steps to understanding the stock market shows you precisely how to break down the numbers in an engaging and readable way with real-life examples. Get access today@stockmarketpdf.com until next time have a prosperous day. The information contained just for general information and educational purposes. Only it is not intended as a substitute for legal, commercial, and or financial advice from a licensed professional review, our full disclaimer@einvestingforbeginners.com.