IFB341: Navigating Stock Market Volatility - A Guide for Beginners

Dave [00:00:00]:

All right, folks, welcome to Investing for Beginners podcast. Today we have episode 341. Today we're going to answer a litany of questions we got from Spotify. I got that right the first time. Woohoo. If you have any questions, you can send them to us through Spotify. You can also reach out to us on Twitter at IFB Underscore podcast. Or you can also send them to our email, which is newsletter@envestingforbeganners.com which I will put in the show notes for you.

Dave [00:00:30]:

So with that, let's go ahead and dive into the first question. So this is from Josh, and he said hi. For someone new to investing, can you recommend which five to ten episodes to start with from this podcast so I can build my understanding before listening to episodes that go over my head? Great question. So, Josh, that is actually a simple one. So we have a back to the beginner series that we did oh so long ago, episodes 43 through 47. And those would be a great place for someone to start to give you a sense of what the market looks like, how it works, and all that fun stuff before diving into things that go over to your head. Andrew, do you have anything else you'd like to tag onto?

Andrew [00:01:12]:

Mean, we've redubbed that one several times. Right? Any of the back to the basics, really? That's kind of the whole point of those.

Dave [00:01:20]:

Yep, exactly. You can just do a search and you can find them on Google quite easily. All right, so let's move on to the next question. So this is from Brian. I have elderly in laws that live off of Social Security and pensions, as well as some money from the VA. No retirement savings. What type of investments would they start if they wanted to earn some cash? So, Andrew, I'm going to let you take first stab at this.

Andrew [00:01:43]:

Thanks. You know, look, investing at its core, investing is putting your money to work so you can earn more money later. I don't see it as being a way to generate income just out of thin air. It's a retirement vehicle. It's a savings vehicle. But kind of to be like, hey, I want to earn more cash. What investments do I pick to earn me cash? Kind of doesn't work that way. At least the way I understand investing and know how to teach investing.

Andrew [00:02:14]:

To me, investing is putting money to work. And to do that, you have to have money to start with. So figuring out how can I scrape together some extra cash, I think that's maybe something to listen to a podcast about side hustles or entrepreneurship or career or something like that. Not so much hustling cash from investments. I don't really do that.

Dave [00:02:35]:

No, neither one of us do. That's not really the way that we invest. Investing is something that, the way that you make money is by letting it work for you, by compounding, by the dividends being reinvested and working over a period of time to take $20 and put it into stock market so that you can earn another $20. It doesn't necessarily work that way. And at least that's not the way that Andrew and I invest, and that's not the way that we work with people to try to help them invest. It's more of a longer term plan to try to grow your wealth as opposed to a cash generation method and kind of, to Andrew's point, creating a side hustle, getting a know things of that, you know, in this situation, may not be the best way for them to do it, but those are more the ways that we go about doing it. So this is really not a way that we try to invest, and we try to encourage people not to try to invest that way because that's very speculative. And if I'm reading this right, then the way they're looking at it is they want bitcoin type returns without having to spend a lot of effort or risk.

Dave [00:03:51]:

And those kinds of returns only come with a lot of risk. And I wouldn't suggest putting somebody's Social Security and pension money into something like that because it's so risky. And that is not a way that I would have my mom invest or any of my relatives invest, and I wouldn't recommend that for anyone else either. All right, so let's move on to the next question. So this is from Gino, and he asked how to start investing at 45 years old, if you haven't saved anything before. So what are your thoughts on this question?

Andrew [00:04:23]:

Yeah, it's like the great quote about planting a tree. The best time to plant a tree was 20 years ago. The second best time is today. So what's great about today is you can have a clean slate and you can start today even if you've never done it before, because we all share that, right? We all share today, and we all have the ability to choose how we want to do today. So I would say forget about the past and think more towards the future and start as soon as you can.

Dave [00:04:55]:

Yes, I agree. So if somebody came to you and said, can you give me an abbreviated plan of how I could start doing this? What would you tell them?

Andrew [00:05:06]:

Abbreviated plan. I like the way you word that, that's cool. Well, two things then. All right. Number one is have the right mindset. Number two is have the actual how to, like, the actual steps you're going to do. Number one, the mindset is if I want to build wealth over the long term and I want to do it with the stock market, I have a 20 year time horizon at least. Because if your time horizon is much less than that, it's going to be hard to consistently make money.

Andrew [00:05:34]:

The market just is the way the market is. And if you want to learn why, you can go listen to back to the basics. The second part is how to do that. And so I would say, first, set a number that you're going to invest every single month and then put that money into the market and then rinse and repeat. That's what I would say.

Dave [00:05:55]:

Yeah, I would agree with all that. I think one of the things that I guess some things I would add on is as part of determining what you want to invest, is start to create a budget. And it doesn't have to be line item by line item. It can be generalities if you want. Not everybody is an Excel spreadsheet warrior like us. I'm not a warrior. I'm probably more of a novice. But anyway, not everybody operates that way.

Dave [00:06:24]:

So part of it is setting a budget so you can determine how much you can set aside. And as Andrew said, set that habit. I think once you start to do that, then I think you need to open a brokerage account and you need to buy one thing. Doesn't matter what it is. This thing is not going to be the thing that's going to set you up to become the next Bill Gates or Warren Buffett. This is your learning tool. This is a company that you really love, that you just want to own a piece of. Whatever it could be.

Dave [00:06:53]:

It could be Netflix, it could be Apple, it could be Walmart. It could be Kroger. I'm just throwing out names. But whatever it is, and then you need to start learning about the stock market. You can read our website. You can download all the freebies that we have from the seven steps ebook to the DCF series. There's lots of different tools that we have and resources that we have that can help you get started. If all of that leaves you cold and you're like, I know this is not for me, then find a Vanguard SP 500 ETF, whichever one tickles your fancy, the one with the lowest fees, and buy it.

Dave [00:07:37]:

Just buy one share. Buy a partial share. $50 worth. It doesn't have to be everything. Just start to get your feet in the water. Because once you start to put skin in the game, all of this becomes real. And then once you start doing that, then you can start building on that every month. You can add whatever amount it is that you have determined that you can invest comfortably and start doing that and add to that position and start doing it on a regular basis, and you'll find that your learning will grow exponentially because you have skin in the game.

Dave [00:08:09]:

Now that I'm investing in the stock market, whether it's an individual company or whether it's the vanguard ETF that I was suggesting, both of those items will give you skin in the game and make you go, hey, I got to learn more about this, because now my money is involved, and money is very personal for all of us. And I think that's a real easy way for people to get started and start building your wealth. And a, don't compare yourself, and B, don't get discouraged if your investments don't go up and to the right immediately. It's part of the game. It's part of the process of learning to stomach the volatility. Because stocks will go up and down every day, sometimes daily, sometimes weekly. Some will move a lot, some won't move much at all. And that's just part of the game.

Dave [00:08:55]:

And you need to learn to handle the volatility, because that's part of our learning process, is to learn the ups and downs and how much can I handle this? And I think once you start to get a handle on all these things, all that will help you start to grow as an investor. And before you know it, you'll be shocked at how much you've been able to save. My fiance was talking to me the other day, and if you say $20 a month at the end of the year, that's $240. And that may not sound like a lot, but it's $240. You can buy a lot of stuff with $240. And so just starting that pebble to grow the snowball that rolls down the hill, you got to start somewhere. And not all of us are born with millions. And so starting with $50 is perfectly fine.

Dave [00:09:40]:

All right, so let's move on to the next question. So this is from Cl Thompson. So could you explain CFDs in as simple as terms as possible, please? I have $3,000 in a UK 100 index, which went up 40% in days. Lost a few dollars has been taken from my cash. How does this work? Thanks so, Andrew, could you help Cl Thompson out with this one?

Andrew [00:10:04]:

Could I explain CFDs in as simple terms as possible? Yeah, don't do it. How about that? Investopedia talks about CFDs. They call them contract for differences, and it's just a way to speculate. In the United States, it's actually banned, according to. And I've seen shady brokers online where I would never put my money in, and they offer CFDs, and it's just not a good idea. I don't see the point in actually getting into what it is if I don't think it's a good idea. So I'm just going to say it's a bad idea. Don't do it.

Andrew [00:10:35]:

That simple?

Dave [00:10:36]:

Yes, it's very simple. Stay away. Don't do it.

Andrew [00:10:39]:

I mean, think about it. The thing that you supposedly bought went up 40%, and yet they're still taking money from you, right? Come on.

Dave [00:10:46]:

Yeah, there's a disconnect, right?

Andrew [00:10:48]:

Yeah, it's a disconnect. And reading a little bit about it, it's like this is not investing. You're buying a complex financial vehicle, and it's not going to be a good situation. There's a reason they banned it here.

Dave [00:11:03]:

Yeah, exactly. Well, what do you like to say? There's no free lunch in the stock market. And if it's too good to be true, it usually is.

Andrew [00:11:10]:

Yeah, 100%.

Dave [00:11:13]:

All right, so moving on. Next question. This is from Tito. Hi. I have a question. If I am in need of money, what should I sell? Some shares of a stock or an ETF, and which one? That one that is making me more money or the one that is not performing well? This is a great question.

Andrew [00:11:30]:

Yeah. What do you think?

Dave [00:11:32]:

Oh, boy. I think you probably need to. Well, okay. So determining which one to sell, depending on what the need is, will also probably drive some of the decision of what to sell. And I think you need to understand what it is that you own and if the stock is not performing well, understanding why it's not performing well. Is it just because the stock price has gone down, or is it because the company is fundamentally performing poorly? If you look at intel, the company is obviously performing poorly. But if you look at EMD, the company is performing well. But maybe the stock price is not doing well, and sometimes there's a disconnect.

Dave [00:12:17]:

I'm just using these as illustrative. I'm not saying these are actually happening. If you're trying to determine which one is to sell, the stock is in some ways easier to determine because you know what you need to look for is revenues down? Are the margins decreasing? Is the thing that they sell all of a sudden unpopular and all those things. Can we make a decision a lot easier? An ETF is harder because it's a basket of companies. And so you can't really determine why per se, unless it's an ETF that is around airlines, for example. And now airlines are out of favor. And so that market is down. So I would look and try to determine which one it is that you know about, and then you can make the decision from there.

Dave [00:13:07]:

That's, I guess, how I would try to look at it. What are your thoughts?

Andrew [00:13:11]:

Very stock picker of you. I love it.

Dave [00:13:13]:

Thank you.

Andrew [00:13:14]:

I would do the exact same thing again. I don't have like a mix of ETFs. I have all stocks. So I. Another question you could ask yourself is do I want to be more of a stock picker or less of a stock picker? If you want to be less of a stock picker, then sell some of the stocks. Right. If you want to be more of a stock picker, maybe unload some of the ETFs. I think that might help as well.

Dave [00:13:36]:

Some of it's going to have a bearing on how much you need. So, for example, if you need $2,000 and you have $1,500 in stocks and $700 in ETFs, I think it makes it easy. You got to sell all the stocks and most of the ETFs. So it really comes down to the answers Andrew and I gave, but also how much you have in each allocation and how much you really need. So that'll have some bearing on it as well.

Andrew [00:14:00]:

No easy answer to this.

Dave [00:14:01]:

No, no, there is not easy answers. These are hard questions sometimes for sure. All right, so let's move on to the next question. So we have.

Andrew [00:14:09]:

Hello.

Dave [00:14:09]:

I just started investing and have been listening to this podcast for about a month now. If I have shares in a company that has been dropping, when do I know is the right time to exit or hold? So this is a great question. Andrew, your thoughts sure comes back to.

Andrew [00:14:25]:

What Dave was saying in the previous question. Has anything with the business fundamentally changed? I think doing that can help that process. We recently recorded a episode, not sure on the timing of it, but basically talking about keeping the destination in mind and this idea of if you're buying stocks, you have a long term time horizon. Try to not look at the stock or the business as what did it do January, February, March of this year? But more so is what it's doing now. Going to be able to continue to do in ten years. And when you start to frame it that way, I think it makes that decision a lot easier, because in the short term, a million things can go wrong. But in the long term, it's really, is the company still executing like it has before, or is it not? And so to me, that's an easier decision. And really, if you look at stock prices over the long term, in the short term, they're up and down, wild, crazy, happy one day, sad the next day.

Andrew [00:15:31]:

But in the long term, if the business has grown, the stock price has grown alongside of it. And so looking at it from a business perspective, to me, is always way better than looking at what's the stock done? Has it gone up or down? Focus on the business.

Dave [00:15:50]:

I think that's really the key, is focus on the business. We have to remember that the stock market is a complex beast, and there's lots and lots of moving parts. And sometimes the dislocation of the stock price versus the business performance will be extreme. Sometimes it'll be very narrow. Mr. Market, who is a fictional character that Benjamin Graham created many, many years ago to try to help explain the psychotic nature, if you will, of the stock market. And there are lots of times you will see that the company will announce their quarterly results, and they're horrible. And the company goes up 10%.

Dave [00:16:36]:

And everybody, you always see this. Why? That makes zero sense, that this company had a horrible quarter, but it's up 10%. Likewise, you'll see a company that does amazing, has awesome results, and then it's down 15% the next day.

Andrew [00:16:53]:

Like, why?

Dave [00:16:54]:

It's because Mr. Market, who is a crazy dude, he will show up at your door offering you sales and discounts and air quote great offers on companies on a daily basis. And that's the volatility of the market playing into your hands. But to Andrew's point, the long term results of the company are based on the fundamentals and the performance of the business, not the stock price. And the economy does not always equal the stock market either, because the stock market is a forward looking animal. And so it's projecting where they think this stock is going to be 510 years from now, where the economy is looking at what is happening right now. And so there will be a disconnect from those. So sometimes you'll see the stock market doing amazing, and the economy is not so hot and vice versa.

Dave [00:17:48]:

And so they're not always correlated. And when you're thinking about individual stocks and individual companies, you really have to go back to the basics and think about the fundamentals of the business. And how is that doing? Is it still selling pizza? And is this pizza still popular? And if those two things are still in play, then the other stuff kind of fades away after a period of time. And the market is always going to react violently to unexpected news quarterly or in short term bursts. But over the long term, it's going to reward the company that performs well. And you look at a company like Microsoft or Apple, for example, the company is being rewarded because they performed well financially, whereas you look at other companies that have not performed well financially. They are not being rewarded. And so that's how the market works.

Dave [00:18:43]:

Trying to know when the right time to exit or hold is. Go back and ask yourself, is this company still doing what it's supposed to do? And if it's not, then you can think about selling. One of my favorite phrases is buy slow, sell slower. So just try to keep that in mind when you're trying to sell. And try not to have a knee jerk reaction, which is easy to do.

Andrew [00:19:06]:

I think a good example of not having a knee jerk reaction is how you handled Ajin. So do you mind taking us through that mindset? Know you knew what Ajin was, so you bought the company, and then when the stock went down, you knew that the original reason why you bought it hadn't changed enough to make you sell. Would you mind walking us through some of that so we can get a good example of what that could look like?

Dave [00:19:33]:

Yeah, sure. So six, eight months ago, the company I bought, Ajin, it's a dutch payments company, and I knew what the business did. I understood their place in the market, and I understood kind of what it is that they do. And they came out with a earnings call and they missed. The analysts set these targets. Market expects the company to perform a certain way, and those things did not come to pass. And so the initial knee jerk reaction for everybody was for the general mood around the company, that it was overpriced or expensive or, quote, overpriced or expensive. And so when it didn't meet expectations for the short term investors, the stock price tanked by almost 50% in, like, three or four days.

Dave [00:20:24]:

Like huge down, and people were running for the hills. And there was all this panic, and everybody was freaking out. But I knew that because I knew the company and I knew what they were doing and why their results were not where the market thought they should be was simply for the fact that they were being countercyclical to everything else that was going on. So remember during 2020, during the pandemic, everybody was hiring lots and lots of developers. Talent it people huge. And then when the pandemic receded and these companies all realized, hey, I overhired, and they started firing people in these huge batches. Well, Ajin waited for that to happen, and then they swooped in and started hiring all these people at lower salaries, and the Dutch generally pay less. And so they went after this talent, that is all now looking for jobs, and they could pay them less.

Dave [00:21:18]:

And they also had a bigger opportunity to find more talent to help them grow, because five years prior, they did the same cycle. They got as big as they could with the headcount that they had, but they knew that they needed to hire more people to grow more. And so five years ago, they did the same thing. They hired a whole bunch of people. They went through a little bit of a downturn through their profitability because of this takes time for the leverage of sales growth to catch up to the margins. And so because of that, it just takes a year or so for the operating leverage to kick in. I knew this was going to happen with Ajin. And sure enough, six months later, a few months later, they actually did their own earnings call separate, which they don't normally do, and talked about all the things that they were doing and how this was affecting their financials.

Dave [00:22:09]:

And a few months later, they came out with their quarter results, and lo and behold, they were back to where they were. And then the stock price went boom, and I bought more when it dropped 50%, because now I can buy it at even better price. And because I knew the company, to me, it was like an example of like, oh, yeah, this is like mana from heaven. I get to buy more of this fantastic company at a 50% discount. Who wouldn't love that? So anyway, that's kind of how I tried to look at it, was I understood the fundamentals of the company. I understand what their destination was and where they were going and how the market was overreacting to the news.

Andrew [00:22:50]:

That's a great example. I think it was. Maybe he had. I don't know if you saw that image of. It was like a girl was looking at eyes of a dude or something, right?

Dave [00:23:05]:

Yeah.

Andrew [00:23:06]:

Guy who bought Ajin on the dip or something, like.

Dave [00:23:09]:

Yeah, exactly. Yeah, it's really pretty girl looking up at this guy lovingly kind of thing. Yeah, I remember that. Yeah, that was pretty funny.

Andrew [00:23:17]:

That's funny. So was it hard to. Were you tempted to exit, or was it pretty easy to hold it was.

Dave [00:23:24]:

Very easy to hold.

Andrew [00:23:25]:

How can an investor model that in their own approach, too?

Dave [00:23:29]:

I mean, for me, it comes back to really understanding the business and what it is, who's driving the bus, where they're trying to go, and kind of the industry that they're in. And I think if you can understand those things and have a comfort level of, I really understand this, I know what they're doing. I may not know. No, but I know. And for me, that makes it a lot easier to withstand this, because I have a lot of faith in the people running the business, and I understand what it is they do and how important they are in the ecosystem of making payments, kind of thing. And so Netflix is one of their clients, for example. And so Netflix is a huge company. Taking payments for them is very important.

Dave [00:24:15]:

And they do it monthly. We all pay a monthly subscription, and Ajin facilitates that. If Ajin goes away, that makes it a lot harder for Netflix to be successful. And so I understand their place in the ecosystem, if you will. And so by understanding that, understanding who it is, the leaders are, and feeling like the market know, made a mistake, then it made it real easy. And even for a second, entertain the idea of, like, eh, I'm out.

Andrew [00:24:44]:

What does the destination look like for you? Because we talked about that kind of idea with thinking of the destination with a company. I mean, me personally, I love the payments industry, because it's like a toll road to the economy. People are always making more payments and at greater volumes, with inflation and everything, or the growth of the economy. So when you think about that Nick sleep destination idea for Ajen, what does that look like for know?

Dave [00:25:13]:

For me, it feels like we're still in early innings of all this. And I'll give you a couple of examples. So, the economies in Latin America, Brazil and Mexico, for example, cash is still the primary way that people pay. And in Mexico, I think it's up to 60 or 70% of all payments in Mexico are made via cash. And in Brazil, it's probably 50%. And we're talking Brazil has 100 and 8200 million people living in the country, and Mexico is 100 million ish or so. And so these are large countries, large economies, and there's a long ways to go before it's saturated. And that's just in Latin America.

Dave [00:26:01]:

I'm not talking about Africa or Asia, and even here in the United States. And so I just feel like there is a long, long ways to go for payments. And as companies like Ajin make it easier and easier and easier, it becomes more and more part of our lifestyle. And I think there's a long, long ways to go for companies like Ajin to continue to make it easier for people to pay and do the things that they want to do without being a hassle. I'm old enough to remember what it was like to go to a store and use your card and have them take out those old machines with the carbon copy and swipe it across. Or even. I remember my mom and I went to a store and they didn't have those. They actually had to call the bank to make sure that the payment could go through before they processed the card.

Dave [00:26:59]:

Imagine now. If you did that now, people would screw this. I'm out of here. Nobody would wait. And that was standard operating procedure. So as things get easier and easier and easier, I think a company like Ajin will continue to be a big part of making that easier for the businesses, for somebody like Netflix to just make it easier for us to pay them.

Andrew [00:27:23]:

So, was that phone call you're talking about done? Rotary.

Dave [00:27:27]:

It actually. Yeah. Yeah, it actually was.

Andrew [00:27:32]:

I can feel my eyes rolling back with each.

Dave [00:27:37]:

I'm also dating, you know, there. There's that, too.

Andrew [00:27:41]:

Different time. Well, that's good. That's cool. Any last thoughts on this great question from Jerome.

Dave [00:27:47]:

No, I think we've helped him figure out what's the best way to exit or know, keep it or get rid of think. You know, once you think about the things that you and I have talked about, I think that can help frame what they need to do.

Andrew [00:28:03]:

Yeah. I think all stock pickers should hope to get to a level like this where they can really understand the business well enough and understand any news and market moods around the stock to be able to make decisions like this. And hopefully it turns into better decisions. More better decisions than bad ones.

Dave [00:28:25]:

Yeah, I agree. Yeah. It's nice when the market gives you a gift and you can actually see it clearly without your emotions being involved. It doesn't happen a lot. And when it does, it's like the heavens opened up and you're like, oh, yeah.

Andrew [00:28:42]:

Felt like I had one last month. But time will tell, right?

Dave [00:28:44]:

You're right. Exactly. All right, folks, well, with that, we will go ahead and wrap up our conversation for today. I wanted to thank everybody for taking the time to send us those fantastic questions. Please keep them coming again, you can send them to us via Shopify. You could send them on social at IFB, underscore podcast on Twitter. Or you could also send them to newsletter@einvestingforbeganners.com and we will go ahead and read your question on the air and answer them for you. So with that, we'll go ahead and sign us off.

Dave [00:29:12]:

You guys go out there and invest with the margin of safety. Emphasis on the safety. Have a great week, and we'll talk to you all next week. Bye.