IFB296: Listener Q&A – Dollar Cost Averaging/Portfolio Management

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Dave

0:00

Alright folks, welcome to Investing for Beginners Podcast. Today we have episode 296. Today we're going to answer some great listener questions we got recently. So without any further ado, we'll go ahead and dive in. So here we go. Hi, Andrew and Dave. Firstly, I'd like to say a big thank you to both of you for the great advice and explanations you provide on your podcast. I have wanted to learn more about investing and the stock market for a long time. And I recently discovered your podcast.

And I already feel like I've acquired a lot of useful information. When you talk about dollar cost averaging, I get the theory behind it. And it all totally makes sense. But what I'd like to know is do you only ever put 150 into 100 into one company? And then are you buying stock in a different company each month? Or do you go back and invest a further 150 into companies you already own stock in some months, and not invest in new companies that month? Thanks in advance, Emma.

So this is a great question kind of covers a couple of different ideas, dollar cost averaging, as well as kind of portfolio construction management, however you want to put that. So Sir Andrew, would you like to take the first stab at answering this?

Andrew

1:05

Yeah, I will. So thanks, Emma, for listening and for writing in dollar cost averaging. And if you're a first time listener, it's basically just putting the same amount of money every month. And that works really well because the stock market goes up and down. And so you can't really time when is a good time to buy. So if you're just always putting money in over the long run, you're gonna do really, really well in the stock market. As far as how to apply that versus new companies or companies you already have.

Personally, I'm always looking at what's the best opportunity at any given point in time. And then I'm also trying to balance that with how much do I actually know about a company and how much is out of my control. So I've said in the past where I made a mistake, years ago, where I was really excited about a company called the well brands, and WL. And I was so excited because it was so cheap, and I bought it three months in a row. And I felt great about it until one day they came out saying oh, by the way, we wasted like $8 billion. And so we're taking a billion dollar loss on Monday that we use to acquire a company, you know, several years ago.

So that ended up being a really poor idea. Even though I thought it was a great idea. And so you kind of want to balance between being diversified and finding whatever the best opportunity is. And so that's why when I'm looking at what the opportunities are, I'm going to put money where the best opportunity is, while also balancing it with the idea that some companies might not go as you planned. And so you want to not put this all your money in the same company over and over and over again. That's how I Rodley on a framework basis trying to think about dollar cost averaging, how do you apply it for yourself

Dave

3:00

along the same lines, I have noticed for me that instead of as I've built my portfolio up, so as I get closer to the amount of that I'd like to own in the 20 to 25 company range, give or take, I noticed that instead of looking for new opportunities, I look for opportunities within what I already have. And so I still will put the same amount of money in every month. But my I guess decision making changes a little bit because as you build off the portfolio, you know, it's I think it's natural, and I certainly fall into this category is you kind of fall in love with half of your portfolio and the other half you moderately hate or outright hate, and you want to replace them.

And so it kind of depends on where you are in the evolution of it. And you will sometimes kind of go back and forth on whether you want to keep one that you have or we want to you know, add more to it, water this flower as opposed to watering this weed kind of thing. But I found as I get closer, I reduce the time I try to spend trying to find the brand new shiny thing and try to see if I can, you know, build up the portfolio and sometimes too, like for me, I've noticed that I got a little heavy in the payments. And so I'm trying to build up the other part of the portfolio to kind of counterbalance the heavy focus I had on the payment section there for a while.

And so Andrew has been a big help with that because he's had some fantastic companies he's picked in his E letter over the last six, eight months, a long time. But in particular, there have been some really like superstars that he's picked that I've been like, and been super excited about and those that helps me dollar cost average because I find great companies that kind of helped build out my portfolio, but I think everybody's going to have a different way of doing it. But irregardless, I put $150 in every month, and I actually put it in $200 but I do that And then I tried to find different things within my portfolio to kind of build that portfolio up, and I'll bounce back and forth. So nothing gets to be 57% of my portfolio. And then I have other smaller ones. So I try to build everything up. So it's somewhat even weighted or ish bunch as I can, and then kind of go from there. So I hope that kind of Does that help answer that question?

Andrew

5:21

Yeah, I think so. It's certainly a balancing act. Yeah, it certainly do, you kind of do the balancing act as well, it's interesting, because I think the market will give you different opportunities at different times. So while on one hand, you want to kind of have a system and you want to follow as much as you can, sometimes you have to be flexible with the fact that the market can give you a really good opportunity.

So I just talked about my framework of not putting a bunch of money into one idea all at the same time. And then last month, I sold poor socks to put it into one stock that I had just bought three months ago. So it really depends on what the markets giving you. But also, I'm following the general framework.

Dave

6:04

Yeah, that makes a lot of sense. I think that's probably maybe we should double click on that a little bit. Because I think that's an important idea. I think sometimes people feel like they have to buy something new every month, because they have to. And they're in essence a little bit forcing the action, as opposed to taking what the market gives you. Because like you just said, there are going to be times where you're going to have opportunities here and opportunities there.

But you may not in something else that you really want is sometimes your portfolio is going to be the place that you're going to find the best opportunities because the market may beat some of those down, for example, and give you an opportunity to buy it even at a better price than you originally purchased

Andrew

6:44

it at. Yeah, for sure.

Dave

6:46

Alright, we'll move on to the next question. My name is Jimmy, and I listen to your podcast for 10 hours a day at work every day. And in three weeks, I've listened to over 60 of them. That is amazing, Jimmy, he's a beginner. And I still don't know much when it comes to anything other than picking my own personal dividend stocks. My employer has a 3% matching 401k. With Vanguard, the problem I have is I can't find a way to investigate any of the options they gave me to choose for my investments.

All I have is the name of each selection, which I have a screenshot of to try and figure out what is what I'm trying to find the dividend stocks to invest in with a margin of safety. But I don't know which other options is what, thank you for everything you can do to help me figure out what this means. So Andrew, you want to take a first stab here at HUD trying to help Jimmy out,

Andrew

7:33

I mean, the only thing I can feel like I really add is not every 401k options going to be the same as every employer has different 401k plans. And those 401 K plans might give you a world is your oyster kind of selection, where you can buy anything in there on some of them might give you just the chef's curated, here are five things you can invest in, you have to pick between those.

So if you're not seeing that, it's very obvious that you can buy different individual companies inside your 401k. I'm in the guests that they just give you a small curated list, and you just have to pick between those, I was just

Dave

8:13

helping my future and daughter law set up her 401k for her new job. And they had six choices. That was it. And it wasn't real broad. And it was you know, very, very generic. And I remember when I worked at Wells Fargo, we probably had 30. So we had a lot more options to choose from. And so it was a little easier to kind of decide what would be the best investments for him. I guess one of the questions he was asking is, how would he? What can he do to maybe help educate himself a little bit on what it is that they're offering at Vanguard, like what his options are? As far as like specifics within that particular basket of funds.

Andrew

9:00

I mean, I don't personally use Vanguard, but I know a ton of people who use it are happy with it. And they're very smart investors. So my guess would be either find one of them and like find their blogs or just go on Vanguards website, I would imagine. I mean, do they have even some of the you can call it Vanguard? I

Dave

9:18

don't know. I don't know. I mean, I've never done this. So I can't say for sure that they do this, but I'm sure they have his company will have an HR person that would they won't give them the answers, unfortunately. But he could, they could at least guide him to Vanguard to help them kind of narrow down his choices and what it is is going on with those I would also imagine that they would have at Vanguard if his 401k is not like if his HR is not giving him this information.

They should have a prospectus at Vanguard that he would be able to look at and get more particulars on what is in any of the funds that he's being able to choose from. It may not be exactly specific, but it could probably get you in the ball. parked to help you figure out exactly what it is that he wants to know, to help them choose all that stuff? That'd be my suggestion anyway,

Andrew

10:07

that's good advice. Is there? Maybe we can answer for somebody who's having trouble with their 401k? Is there a generic strategy or generic thing that a lot of people would do well, and to pick across a lot of different 401k options. It's not necessarily like ordering steak versus chicken. I mean, you go with one of those, and it's taste and you'll be full. With investments. It's like you, you will have money or you will have money. So how, you know, are there any universal rules we can have with investment choices, understanding that 401k is can differ from company to company? Is there a universal answer to some of that? Well, I

Dave

10:47

guess the first thing that pops into my mind and correct me if I'm wrong, but I feel like the best choice would be to look for something that either encompasses the s&p 500, or something that's a total market kind of fund. And I think both of those, I think, would be great first options, or even only option for a lot of people, because it automatically would give you a measure of diversity, it would automatically give you a measure of growth, and it would automatically give you kind of a version of kind of what's going on with the stock market and everything and just to kind of keep you investing, and also getting good returns without having to do a lot of work.

And you aren't going to have to worry about so much about whether I put this company versus this company, or should I, you know, should I have this much in this fund and this much in this fund. And if that's something that doesn't doesn't, he doesn't float your boat B, you don't have an opportunity to choose different things, kind of like my future daughter in law. You know, that's what I put her in. So I suggested she used was they had an s&p fund that match the s&p 500 as a perfect done, we're done. And it doesn't have to be hard. It doesn't. We don't get style points at the end, because of the complexity of our investments. It's about what kind of returns you get, you know, how well did were you consistent we doing it. And that's really what it comes down to. And that's what a 401k does best 100% 100%.

Andrew

12:13

And then just for the absolute beginner, the reason why the s&p is a good choice is,

Dave

12:21

in my opinion, if the s&p 500 is a good choice, because it gives you a broad range of a lot of the best companies in the United States and arguably the world. And it gives you diversification, which means that you're not putting all of your eggs in one basket. The s&p 500 covers everything, from banks, to tech to food, to swimming pools to just about anything you can think of. So it gives you a wide range of opportunities to invest across a broad swath of different companies, and you get to participate in the future growth of the

United States. And not to be US centric, but to be US centric. That's a great place to be. So that's I guess that would be my suggestion. What are your thoughts?

Andrew

13:05

That's it Mic drop.

Dave

13:06

Okay. Mic drop. Okay. All right. Well, let's move on to the next one, then. So hello, first off great content on the podcast. We're learning so much. But for my question, I have only been following the monthly dividend picks for a little over a year. Now, for this month's selection, there is a large position to be bought based on the sale, older positions being closed. How would I go about sizing properly if I did not own any of them to be sold? Thanks, Seth. So this is a great question. And this is for you, sir. Andrew,

Andrew

13:38

I guess I was just talking about this earlier. Right. So we're almost extending that dollar cost averaging question. So yeah, again, background, I had four stocks, they have been in our podcast therapy for a while I know we talked about target recently, I've talked about Domino's, EA, and then another company step and so those stocks are gone. And then I've loaded that up into a new position that I feel they have a huge runway, and it's really cheap. So even if they don't execute, like, they're hoping it's still gonna be a good investment, earn good returns, and, oh, by the way, the dividend yields like five and a half, and they're not diluting the law.

So that's it's not going to be hard to get good returns there and in industry that everybody uses this technology every single day. So that's what I've done. And this person's asking, Seth is asking, you know, what do I do if I can't follow along? And, you know, obviously, we can't give personalized advice because this is an educational podcast, but what I will say is, if you're building a portfolio, and you're not in the same stage, as Dave and I were, we have full portfolios that we built over several years. If you're just starting a portfolio, maybe this is your six stocks.

One stock, then my number one priority at that stage is just to build up and get diversification over time. And not necessarily worry about, like you were saying, Dave, like, how much needs to be in here and how much needs to be in there. Because if you're starting, then you have three stocks, and then you're going to add a stock and so forth stock. That's still like 25% of your portfolio. And each company, that's a lot, those are big positions. So it feels me and I was starting over and this was like mice, let's say, a six month 10th month of building a portfolio, just keep building with each new pick, and then over time, that's going to naturally diversify.

And then I can guarantee you that's not going to be the last fat pits we swing at, we'll have more in the future. And then at that point, you can decide that maybe there are businesses that I've moved on from and you're gonna sell those or maybe your businesses, you just for whatever reason want to sell and aren't convicted about anyway. That's kind of how I would look

Dave

16:00

at it. Okay. Yeah, I guess a question that pops into my head would be for a hypothetical. Let's say the Seth has seven companies in his portfolio now and he wants to add the new one, eight, would you recommend that he sizes it as large as you're recommending sizing it? Or would you recommend he size it as an add on normal, let's say 1/8 of his portfolio kind of thing. And then in the future, if he wants to, as we were saying, kind of water, the flowers, he could come back and add more to that, at that time?

Andrew

16:33

Who asked him the tough ones I like? Yeah. I mean, this is this is my biggest position in several years. So if it was, you know, if I was telling my little brother what to do, I would say I would make this one bigger. Because the fact of the matter is, like we were saying, the market is going to give us with it's going to give us so we're not always going to have this screaming deal in front of us. So I would not just treat it like any other stock, I would make it a bigger position than normal.

But what that actual number is, I can't give a good answer. And I would say like, I wouldn't want it to be something like 25 or 30% Right now, because of Andrews doing 1012 13% of his portfolio. And then I'm gonna do 25% That's a lot more risk than Andrews taking. So I would use my portfolio as a signal. But then you also have to apply it to your own individual situation. And I guess so what makes us unique is because we have investors other all different stages of building a portfolio, trying to follow a plan. And so the portfolio is there the model, but I would try not to take it so literally and be worried, like, oh, I can't sell for stocks, think of the percentages of a portfolio, not so much the number of stocks or what I'm selling. Right.

Dave

17:55

I guess one thing that kind of another thing that pops into my head, too, is the I think people need to understand when you're building a portfolio, that we're talking about living machines, the companies that we're buying, are going to expand contract, as far as their prices go, which is going to impact the day sizing in the portfolio. And so it's never going to be, you know, a 10, a 10, a 10, a 10. It could be, you know, nine this month, and it could be eight this month, and it could be 11.

And next month, one company, and I mean, it can fluctuate and so, and as companies, especially as your portfolio is smaller, in other words, by number wise, as each individual investment continues to perform, or even outperform, and does really, really well, then that's going to naturally grow to be a bigger portion of the portfolio. But as you add more companies to the portfolio, that sizing will shrink, because you're adding more numbers to the portfolio, and I'll help even out the sizing of the portfolio. Warren Buffett owns Apple, which is in the 50% range, if not more of his portfolio, and that's a little nuts, but but he's Warren Buffett, and he can do it he has the stomach to handle that. I don't And Dave does not.

So this just kind of continued down to the portfolio sizing idea. Is there any point that you would start to maybe trim? Like if it got to 20 25%? For example, just as a hypothetical, is that something where you maybe start thinking about perming. And this is when you keep in mind this is when the portfolio is kind of more fully realized. If you're just starting out? This is not something we would recommend.

Andrew

19:40

Yeah, good context. I felt like we dealt with this with a previous episode from a listener who said Nvidia had made up was it 2530 Or was it 40 or 50? I cannot remember the specifics but it was high enough where I said that would make me uncomfortable. And the reason why is They things like that is if you think about having 50% of your portfolio in one company. If that company, let's say it this way, so stocks will all drop. And they'll drop a lot in bear markets and recessions, things like that. But the amount they dropped can depend on what kind of stock you have.

So if you have like a early stage IPO company, you could see those stocks drop at 8590 95%, which that turns 100 bucks into like, $5. If you flip the math on that turned $5, back into 100, you'd have to 20 times your money. And I don't know where you can find those laying around very easily. So what I put 50% of an IPO stock, you know, what I put an IPO stock is 50% of my portfolio, absolutely not, because if it turns $100 in the $5, I've turned you know, and I have a portfolio of $200, I've basically, I've lost almost half of my portfolio, which is very hard to come back from. And so that that math works, as you kind of move down the stage of different types of stocks, probably have different stocks, that won't drop as much.

But they all even like you've said before, even Berkshire Hathaway, which is Warren Buffett stock, his company, that stock has dropped by 50%, during some of the worst market conditions, and his like, safe, great businesses like steady cash flows like as safe and steady as you can get. And even that stock went down 50%. So you have to keep that in mind that there's that risk there. And you don't want to put too much of your portfolio. And that's why I say 40% 50% is just a really big position, no matter what the stock is. So when you say well, what about 25%? Now we're starting to get on the sliding scale. And I, obviously when want to make a definitive answer, or I'm in that situation, but I would say the higher I get on the sliding scale, the bigger the position, the more likely I'll probably trim at some point. Because again, you just want to have all your eggs in one basket. Because if I have something that had an X, but then it goes to zero, guess what? The fact that it went to 10x Doesn't matter, because now it's at zero, and then the snack can go to zero. So I think it's a sliding scale, I would be curious if you have a different approach, no, I

Dave

22:43

probably haven't had to worry about this yet. So I'm hoping to at some point, and then I can cross that bridge when I get there. But you know, my initial feeling is, is that I would try really hard to let the winners run and do that as much as I can, while trying to offset that being a bigger part of my portfolio. And some of its going to depend on timing too. So if you have company A that's doing awesome, and really, really running up in stock price and whatnot, and you have other opportunities in your portfolio, you can easily put money into those other parts of your portfolio that would help kind of counterbalance that percentage wise, and allow that bigger portion of the company to continue to run. And that's one way that I would probably counteract that.

The opposite of that, though, is if I have company A that's doing amazing, and the rest of the portfolio is struggling and the market is struggling, then it's probably going to have to be a harder conversation about what do I do? Do I put more money into these companies? Because they're better opportunities? Or do I and just continue to let that run up? I don't know, it would probably have to be a bit of a company by company basis, there's so many factors that will go into it, like, you know, not that this is unfortunately going to be a case. But if Berkshire Hathaway is still doing awesome 1020 years, I hope they were going to but after Buffett and Munger are no longer part of the company, there's a big risk. There's a big unknown with that.

But let's say that Charlie and Warren were 60. And I could invest with them and an hour, 2030 years and let the company run up to 30 40% of the company. I may have a different opinion on that. So I think you know, like most things in finance, it's going to depend,

Andrew

24:24

unfortunately, glad you talked about the different companies to part part of the trimming conversation is to you have something to put that money into, right? And if the market is gonna give us what it's gonna give us, it's not always gonna give us what we want. Right. So I also would not just trim just trim unless we're literally talking about a stock that's like 50% of my portfolio or something.

Dave

24:49

Right? Yeah. No, I agree. I think those are, I think those are all important ideas to keep in context of kind of the overall construction of your portfolio and making sure that you know, Things are staying where you want them to stay, but you're still getting the returns that you want to get. And, you know, those are some of the harder choices that you have to make along the way sometimes. All right, so we got one last question here. So we got Hulu. In your podcast, I have heard that you are sharing some insights about investing through a newsletter. I will be happy if you would register my email to the mailing list. So Andrew, and you want to take that last one there.

Andrew

25:22

Yeah, if you want to subscribe to our newsletter, we're talking about the free one where we give tips every week, you can just go to stock market pdf.com That will get you signed up on our free newsletter. Dave has this awesome segment, he calls Tuesday nuggets. And he's got I feel like nuggets is an understatement because they're more like big chunks of gold. But you'll have, you know, some of the best writing that you can find on the internet at any given time. Some of the best Twitter threads. Just like if you're looking to expand your knowledge, and you want it quickly on a weekly basis, the nuggets is the place to be. So you can go the stock market PDF and you'll get those Tuesday nuggets.

Dave

25:59

Yeah, awesome. Yep. All right. So with that, we'll go ahead and wrap up our show for this week. Don't forget to subscribe to the show on your preferred podcast app. If you enjoyed our little show today. If you would kindly consider giving us a review. It greatly helps our show. And don't forget to browse the incredible materials we've created for you at E investing for beginners.com. Last week, continue growing your knowledge as an investing for beginners insider with insights and educational tips delivered right to your inbox for free sign up today. And with that, we'll 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.