TranscribeMe!

Transcription details:

Date: 14-Jan-2015

Input sound file: Friday Focus PT 4 Investing KR

Transcription results:

S1 00:00	Hello Kaplan family, Jerry Taylor here. Welcome to another Friday Focus. I hope I find you well as always, and I hope you enjoy listening to this show. Remember these are the opinions of Jerry Taylor, and Jerry Taylor alone. Do not hold Kaplan University or the radio station accountable for the things that I have to say. Well, I have to give a little proviso here. Part of today's show is sort of pre, pre-recorded. I'm using some things I've done at other times to put together this package of four shows, and this is show four. And listening to show four, I may need a show five. But there's a little material here that's a little dated, and I don't think I'm going to try to edit it. That's the bad thing about putting in current data. Current data hurts the integrity of using material in the future. So here, when we're talking about investing - and this show today is about investing - this is a four part series about your money. First we focused on beginning to monitor it, and then using it, and then saving it, and now we're talking about investing it. And I make mention of the fact that at the time of that recording, the Dow Jones industrial average was in the 14,000's, and how remarkable that is, because it had fallen to - in the great recession and so forth - in the 6,600's. So it had fully recovered by that time. Now it's at 16,250. So when you listen to this, you'll say, "Geez. I think it's higher than 14,000." It is. And when you hear this again someday, it may be higher than 16,250, so let's just forget the numbers, and say that investing in stocks is a good thing, and that's what this show is going to try to talk to you about in some way, shape, or form. Try to reduce some of your fears. You hang on, you sit back and relax, and take a listen. And then let me know what you have to say. You write me at jtaylor2@kaplin.edu. Jtaylor2@kaplin.edu. Enjoy the show.
S1 02:17	We have dedicated ourselves to your personal finance of late. And I've asked you to spend the next six months of your life focused on it, by first assessing in full detail - via a financial diary - how much you spend. Remember, I want you to record every single day, every single penny, by cash, check, or credit card, that goes out of your house. That goes out of your family, that goes out of your pocket. So that sometime later you can make a true assessment of exactly where your money goes. I want you to know how much money you make. How much money you make, how much money you make. Don't tell me how much you gross, tell me how much money you make. Put it in your mind, start to think of your money in terms of what you really take home. That's a focus on take-home pay, and of all the cash that comes and goes in your life.
S1 03:09	Lastly, in that era I want you to focus on how much you have. I want you to take all of the things you have in your life that are worth money; your assets, your cash, your investments, your cars, your house, your collectibles of any kind. All of the stuff you have, if it's worth some money, and compare that to the money you owe people, or the money you owe entities, your debt. Your assets minus your debt equal your net worth, your wealth. That's how much money you have. Once you know how much money you have, you can start to focus on growing how much money you have. I want you to do that every year, maybe twice a year, to see how it's going. I mentioned

it last week, it's just like getting on those scales to see, did I gain weight, or did I lose weight? When you measure your net worth, am I treading water, am I gaining on it, or am I losing, am I sinking? You won't know unless you do that measurement every year.

S1 04:13 Last week, we focused on paying yourself first. I challenged you to engage in - immediately - a savings plan. No matter how much money you make, you can save money. Look, last week I asked you if you think you live paycheck to paycheck, to start now, every single paycheck, to take just $5 out of your paycheck, if that's where you have to start. Just $5, and put it away somewhere where you can't get at it. Your local credit union will probably open up a Christmas Club account for you with a minimum deposit. Put it in a savings account, and think of that as permanent savings, leave it alone. And then give yourself a raise. Next month, or two months after that, make it 6, then make it 10, then make it 15. Until it hurts, until you notice it. Now for those of you that can try a little it harder, I would really like everyone to start with $25 a paycheck. I really would like you to start with $25 a paycheck. Pay yourself first! Put it in a savings account. Don't worry about how much interest is being paid today, right now. Just put it away and leave it alone. Don't look at it as something you are saving for a coat next month, this is not what this money is about. I want you to think of this as what I call permanent savings. Think of this as saving for your retirement, if nothing else. Look, along the line some great emergency may come up that you have to use it. Maybe college education for the kids, maybe buying a house. Okay, those are substantial things that I would put on the line of permanent things. But for now I want you think of this as permanent, put it away, pay myself first savings, that I'm going to have for the long run. A nickel and a dime, nickel and dime at a time, it's going to grow, and grow, and grow, over the balance of your life.

S1 06:07 Now what do you do with this, when this money starts to accumulate? That's my topic today. That's my topic today. That's the new thing. So, let's say now we've just ended part one, the review. We begin now with part two.

S1 06:25 Part two has to do with, what are you going to do with all that money? Well, maybe it's not going to be all that much money, but today I want to introduce you to your investment options. Leaving that money sit there in a bank account in cash does a couple of things for you, or to you, depending upon how you want to view it. To you, it stays mighty accessible. It's a temptation. You didn't get where you got to today with little in the way of savings, and sometimes far, in big trouble financially, by being disciplined financially. I'm not so sure how disciplined any of us are, to let readily accessible cash lay around for the long haul. Last week I challenged you that if you're really, really bad at this, go buy U.S. savings bonds, and if you're not going to put anything much more than $5 a paycheck in there, then you better get yourself in that savings bond line wherever that is today, I don't know, could still be payroll deduction at your bank. I know you can buy them online. I know you can buy them online, but I don't know much more than that about it. But you track it down, U.S. savings bonds, "How do I buy them?" You know how to work that computer, Google it.

S1 07:52 Let's take it a step further. Let's see what your other options are. Today we're going to talk about the famous stocks, and bonds, and mutual funds. Look, people are afraid of the stock market, it is like a yo-yo. It goes up and down, up and down. Lately, anyway. Yesterday it was down 200 and some points, today I see so far it's up about 125 or 50, but it's been heading up a long time now, a couple of years. It's fully recovered from it's great losses from three years ago when it dove, three or four years ago? I don't know, something like that. When it fell to like 6,600. It's recovered all of that, and it's back above the levels it was at before all that began. Some people think of this as a bubble, I got an email today from a friend who wants to know if it's time to abandon the stock market. Is this somehow fully inflated, is it going to crash again? I don't know. I don't know. If we were on the internet, we'd say, "IDK", right? IDK, I don't know. That's the whole point of the market. People don't really know. One of the funniest commercials that I've seen in a while - you won't think it's funny - but I am an economist finance guy, and I think it's funny. The commercial opens with a very stuffy looking, prosperous looking, senior gentleman sitting on a stage, a very plush stage, and a very attractive female comes out and asks him if he could-- and it says, I think in below, that's he's like a chief economist for the something or something or something, and a professor of economics at something or something and another. A woman comes out and asks him if he knows what interest rates will be at a particular point in time. And his answer is, "No." That's it, and it's a commercial for a bank that has a "raise your rates CD."

S1 09:53 Well that economist told the truth. We do not know what the future holds at any point in time. We do have a thought that says, "Let the trend be your friend." We do have that, and boy, trends look good right now. But still, I'm not going to ask you to let the trend be your friend. First, I'm going to ask you one simple question. You don't have to answer it here and now, and I know it's a question that lots of people don't want to answer, so just answer it quietly to yourself. How old are you? The older you are, the more challenging this issue is, because your time horizon is more limited. For me, these aren't questions for me anymore. It's not time for me to be thinking about taking extraordinary risks with my investment portfolio. But the younger you are, the longer your time horizon, the more seriously you should give consideration to any kind of aggressive investment strategy.

S1 11:03 Now aggressive doesn't mean stupid. Aggressive doesn't mean doing things that make no sense. Aggressive doesn't mean following the next pied piper down the road. Aggressive simply means that you put more of your money in equities, in stocks, in ownership of corporations, than in interest-bearing instruments. Bank accounts and bonds. That's all it means, aggressive simply means more money in equities, than in interest-bearing vehicles. That's all aggressive means. It doesn't mean putting your money in some slap-happy notion of some guy who just came up to your door. Or following the pursuits of some television guy who's telling you that happiness will abound if you purchase your gold or silver from him. I'm talking about traditional, normal, everyday decisions about how to allocate your portfolio.

S1 12:01 Portfolio, wow, that's a fancy term. Do you know what portfolio means? It just means the stuff you got. What've you got? You've got a portfolio if you got a thousand dollars. If you have a thousand dollars in your checking account, that's your portfolio. Your portfolio consists of a thousand dollars in your checking account. If you've got $500 in a checking account, and $500 in a savings account, and a handful of stocks your grandma lent you, that's your portfolio. That's what you got. It's that simple.

S1 12:32 Now look, students tell me all the time - young students especially - "Buying stocks is like taking your money to Las Vegas." Or if it was a girl, she'd say, "Buying stocks is like taking your money to Las Vegas. It's gambling, it's gambling, I tell you." No, it's not. No, it's not. It's not remotely like gambling. It's not remotely like gambling. It's not remotely like taking your money to Las Vegas. Let me ask you this-- I've never been to Las Vegas. I don't buy lottery tickets, let alone gamble, though I have on occasion. I found myself in my youth in a couple of those places. I think I did, maybe once I put my money down on some table. I just don't believe in it. Let me ask you this, when you walk up to that table, I don't know what kind, you're throwing dice, you're spinning a wheel, or you're pulling a machine's arm down, or whatever you're doing, or you're looking at some cards, and they're going to add up to 21. When you put your money down and you lose, what happens? All your money goes away. Put 20 bucks down, you break the bank, money's gone. Put 20 bucks down on 44 red, and it's whatever. 23 black, what happens? The money's gone. That almost never, ever, ever happens in the stock market. Stocks don't often go to zero. Even the biggest crash we've seen since the great depression, the great recession where the stock market went from around 14,000 to 6,600. What-- those few years ago, that we're talking about, three, four years ago. It didn't go to zero. It fell in half. It was unbelievable that it fell in half, it was crushing us. We thought we are all going to die, but it didn't go to zero. That's gambling, gambling is when stuff goes to zero. At the end of the day, it didn't go to zero. All your money wasn't wiped out. If you'd simply sat there and rode it, you'd now have more money than you had when you bought it. Or if you sold it somewhere along the line, and then you bought it back at the bottom, you'd have doubled your money. But how do you know how to do that? Well, that's where I talked to you about letting the trend be your friend. I do have that philosophy. We'll talk about that-- ah, we'll talk about it now.

S1 15:11

It's a notion in these equity things. Let the trend be your friend. In other words, don't make best friends with stocks. Here's an example of what happened to me. I bought stock in a company. Should I say the name of a company? Can I say the name of a company? Yeah, I don't know if I can. I think I can. I will, I will. Lucent I think it was. I think I paid near 60 bucks a share for it. I don't know, it's selling for a dollar or two now. And I put-- I think I lost $15,000 maybe in this process, but I just kept hanging on. I bought into it. I thought, it'll come back. When it fell to 55, when it fell to 50, when it fell to 40, when it fell to 30, no way. Oh no, I can't sell it now. I can't sell it now. Never ever do that. I'm jumping around here with stories, this is not going to make sense later, but I'm just going to finish this one point: do not attach yourself to a stock. Set a stop loss. I should have said to myself-- say it was 60, I think it was about that. I don't care what in the world's happening, if this stock falls to 50, I'm out of here. Think how much money I would have made. What do you mean you would have made? I would have made, versus where I am right now. Still setting on these shares that are worth pennies or $5 or something. I haven't even looked lately, I think it's less than $5.

S1 16:36

If you want to look at it like a true economist, look at how much money I would have made, rather than losing that additional $45 a share. If I just would have said, "When that goes to 50, I don't care what, I'm out of here." If it goes back up, and I like it, I'll get back in it again, and I'll just suffer the slings of that relentless fortune. But you've got to stop at some point. Don't get hooked into a stock. I'd tell you 10%, 10-12%. Get out. What do I mean by get out? Let's get back to the basics. My goodness gracious, that was a sidetrack there, that's what does you when you're doing a radio show. You just talk.

S1 17:16

Stocks. Let's first of all say what they are. You become the owner of a company, you're buying ownership in a company. When you own one share of General Motors stock, or Toyota stock, or GE stock, you are an owner, you're an owner of that percentage - whatever that percentage equates to - of the whole value of the company. A stockholder is an owner. You're participating in the full gambit of what that company does. You're benefiting from, or losing from. And it has a value. You've got to take one of my classes to understand the value of stock. That's too big a topic. Maybe down the road I'll dedicate two or three days to valuing stock.

S1 18:01

But the point is, it's not Las Vegas. Stocks don't often fall to zero. Much like my losing story, it still isn't zero. And I could have sold it over-- it didn't go from 60 to 5, or whatever, I think it's less than five. It didn't go to that over night, it took a long, long time. Long enough. Long enough that I could have gotten out at any point along the way. That was how that all connects, doesn't it. My notion of gambling. That stock ownership is not like gambling. Stocks do not fall to zero like a wage in Las Vegas does. So I want you to relax a little bit. Don't get so nervous about the notion of participating in the equity market. Let me be honest with you. Including now, since about 1928-- 1928, now what's happened since 1928? The great depression. That's what happened since 1928. World War II. That's what happened since 1928. The Korean War, the Vietnam War, the malaise of the '70's. Well, the '80s was pretty good, [chuckles] the crisis, and the great wall falling and all that. The '90s, my God, what did we have in the '90s? The dot com bubble burst we had the savings and loan debacle, wasn't that in the '90s? We had so many financial crises going on in the '90s, unbelievable. And now, the 2000's we're in, and we got 9/11, and we got the housing bubble burst that caused all that's happening now. We can talk about that someday, too. Some of you have so many confused things about Wall Street doing this, and corporate evil doing this. Nothing happened. This great recession, we did it. We did it. You and I did it. The housing bubble. Wall Street didn't create the housing bubble, Wall Street didn't make us borrow excessively on our homes, and then not pay the debt when the price of the houses fell when the bubble burst. Politicians always got a plan, they're enemies I guess, I don't know. That's an interesting story for another day. The truth behind the great recession, wouldn't you like to hear that? Maybe I'll do that someday for you. The truth, believe it or not, with all you hear, I promise you, there simply is no political punches pulled. There is a truth behind the great recession. I think I'll share that with you someday, and see what you think.

S1 20:32

Anyway, with all of that history of troubles, let me deal them again. The great recession, World War I-- excuse me, World War II, the Korean War, the Vietnam War, the malaise of the '70s. The '80s were pretty good. The '90s with the dot com bubble bursting. The '90s with the savings and loan debacle, we thought the world was coming to an end when the savings and loans collapsed. 9/11 in the year 2000's, and the housing bubble in the 2000's, which brought on the great recession. Through all that, blue chip stocks have averaged an annual rate of return in the neighborhood of 12%. 12% per year, average. Some years up, some years down, I'm not saying-- you don't put your money in there and say it's 12% every year. I'm talking about an average, up and down, up and down, up and down. If your great, great, great, great grandfather, or whatever grandfathers ago, would've put some money in the stock market for you in 1928, you wouldn't be listen to my radio show right now. You'd be owning the radio show, it'd be rich. Interest-bearing instruments would have done nothing. We'll do the math on that next week maybe, I'll give you a math number of what would have happened. I didn't prepare for that. But it's a number of some significance.

S1 21:59

Stocks go up. The value of stuff goes up. Now you say, "Oh, well you said that was the blue chip, of course the blue chip did well." No, [chuckle] sorry, mistaken again. The broader indices went up more than that. Yeah, yeah, the SMP 500 was higher than that, but I don't use that because there are some things that go to zero now and then there. There are some more risks there. I'm just looking at things that are mostly still around.

S1 22:29 So, this part two today, to get this topic started for us all, is to tell you today - we're going to have to continue this, because time is flying by because I ramble on -is that I want you to walk into this section of the show, where we're beginning to focus on what to do with that pay-yourself-first money, is I want you not to run away in fear. "He's about to tell me to go buy stock. He is going to tell me to buy some stock, and I am not going to do it!" I want you to let go of that fear, and just listen. There's lots of vehicles through which we can buy stock. I'm going to tell you all about every one of them. We'll talk about individual stocks. We'll talk about diversification. We'll talk about money market funds. We'll talk about mutual funds. We'll talk about-- what are those things, ETF, exchange traded funds, bond funds. All the vehicles out there, that you can use your pay-yourself-first money, that you can invest, your pay-yourself-first money for two purposes. One, to increase the rate of return that you're generating on your permanent savings, and number two, to get it a little further away from those sticky fingers! You get it a little further away from those sticky fingers. You got that? That's where we're going.

S1 24:08 Now, let me start off with my first lesson about investing. Before we get into the details in future weeks of where the money will go. My first significant lesson on investing for you people - especially younger people - the thing that makes this work, is we are going to propose that you invest in regular increments of time and amount. Now get this, what I mean by that. Remember that five bucks a week, or five bucks a paycheck I want you to save? That's really going to be 25 bucks a paycheck, that's going to be 50 bucks a paycheck. Well, then that hundred bucks a month, whatever it is; 200, 500, whatever you end up, whatever your level of income. You're going to invest that every single month into whatever vehicles we ultimately choose. Every single month. And that's the secret of success. You can't put all your money in one basket one day. You just can't say, "One day I'm going to shift all my money into stocks." Because the next day it could fall by 200 or 300 points, and you hate me. The next day it could fall by 1,000. This market now of 14,000-- what, 400, 500, whatever it is right now, could fall back to 10,000. You'd say, "Oh Lord, I should have gone to Las Vegas!" Which would be wrong, because it didn't go zero, did it? But if you invest over time. If you put your 100, your 200, your 300, your 400, your 500 dollars a month, into whatever portfolio you determine is right for you. Then it's a win-win situation. Not that much each month is at risk. And you begin to build your portfolio over time. And if the market is rising, oh happy day. What I have invested in, is worth more. My wealth, that what I have-- remember? How much I spend, how much I make, how much I have, how much I have is growing. But on those occasions like yesterday, or like some prolonged period of time where the market trends down for a while-- and it's going to, you're going to have over your lifetime several recessions. Well then, your monthly purchase is buy-in cheap. "Whoa!" You say. "Oh, great! The market fell. I'm getting more from my money this month. Oh, it fell again." You feel ecstatic because you're not selling tomorrow. You're investing tomorrow. Imagine, if you were investing all along the line, back when market fell to 6,600, and you were investing all along the way, like people did you had 401K's. 6,600, 7,000, 8,000, 9,000, 10,000, 11,000, 12,000, 13,000, 14,000, 14,500. What if you had been putting $1,000 away a month, a $100 away a month, whatever ever since that day when the market reached it's low? Now it's doubled, how good you'd feel. When prices fall, you feel good because you're buying assets cheaper. When prices rise, you feel good because you feel like you're making money. It's a win-win.

S1 27:31	So, the first transition on our logic from the earlier lessons: find out how much you make. Well, you know we say spend first. How do you much do you spend? How much do you make? How much do you have? And then begin to pay yourself first; well, now we're saying how we're going to apply that. And that paying yourself first, we're going to begin to redirect into some strategic portfolio building. Where month, after month, after month, we put money away, so we're not afraid. We're not in Las Vegas. It's not going to go to zero. If it goes up we feel good, because what we have has grown. If it goes down we feel good, because today, this month, this year, we got more for our money, as we continued to invest at the lower prices. Even all the way down. Each level, even when it went-- before it went from 6,600 up to 14,500 now, it had to go from about 14,000 down to 6,600. So even then, you were still buying all along the way. It kept falling, but wherever it was, you were getting into it. You owned all along the way. So what would happen if it had gone to zero? What if it hadn't stopped? If it hadn't stopped, you would have had much bigger fish to fry, wouldn't you? The frigging world would have been coming to an end if the total value of all the corporations in America went to zero, believe me how much money was in your portfolio would be the least of your concern. Money itself would probably be worthless.
S1 29:12	That's enough for today, time is running out. It's a good beginning, isn't it? Is this a good beginning on your investing future? Let me know.
S1 29:23	Well there you have it, our Friday Focus show. I hope we'll have some time to return to a few things. I think I made some promises in this show that I need to revisit, in terms of our deeper assessment of the various parts of the stock market. So we'll do that, we'll try that someday. In the meantime, you can take MT 483 Investments at Kaplan University in the A track with Professor Taylor. That'll help [chuckles]. At least I'd enjoy it. All right, then. That's it. God bless you and keep you. See you next week, same time, same channel. Thank you very much for listening. Please again, contact me any time at jtaylor2@kaplan.edu. Bye-bye.