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3 Ways To Get Winning Investing Advice Every Day

Dan Eggertsen: Hi everyone. I'd like to welcome everyone to the call. This is Dan Eggertsen. I'm here with my father, Karl Eggertsen. How you doing today Dad?

Karl Eggertsen: Doing good Dan.

Dan Eggertsen: Good Dad, glad to hear it. Well we've been getting a ton of questions from all kinds of different people in all kinds of different situations, specifically on the topic of investment advice. I have taken the time to sift through all the questions and I've summarized the top three questions we keep getting asked over and over again. So I want to hit those with you right now Dad, if you don't mind.

Karl Eggertsen: Okay.

Dan Eggertsen: The first question we're getting is, "What investing advice would you give a beginner who wants to start investing money for the future?" So these are raw beginners. Where do they go? Where do they start?

Karl Eggertsen: Okay the first thing to do is you need to look at your savings and you need to look at your debt. It's highly recommended and it's not just for me but just about any investment advisor, investment service worth their salt would recommend that before somebody gets seriously into investing, they need to have established at least three months, at least three equivalent months of your salary.

Ideally six months in a bank savings account or a money market fund at a brokerage for example, or a money market fund at a bank that's interest bearing such as Charles Schwab, would be an investment broker. And also establish an aggressive, disciplined approach to paying down, on a consistent regular basis any debt you have on credit cards or on your car for example.

You want to get that savings there for sure and you want to already have started aggressive, consistent, effective reduction of your debt. You don't necessarily have to get all your debt paid down but you want to have established in your budget, every month to pay down your debt and put those credit cards someplace where you're not going to be tempted to charge to them.

So you want to get yourself in a position where you're secure financially with savings and that you're lowering any debt. If it's excessive you probably should wait and not start investing too aggressively until you get your debt down to a comfortable level. Once you're there and you look at your budget and you see that you have some money in your salary that you could start putting into an investment account, that's the time to start doing it.

What I would recommend is that there are basically three key areas that people could look at starting to invest and I'm going to put them in an order. If you're working for your company, whatever business you work for, many of them likely have a 401K or a 403B.

[03:05.8]

Dan Eggertsen: Right.

Karl Eggertsen: 403B for an educational, academic type organization and other like organizations and the 401K more for companies, businesses and so on. Start contributing to that and contribute at least up to the matching percent that your employer contributes to your account. For example, they may say, "We will match up to 5% of what you put into your 401K or 403B." Invest at least that much.

Dan Eggertsen: Because it's free money.

Karl Eggertsen: Yeah. Yes absolutely. You're getting 100% on your money up to 5% and you can't beat that. The next best thing is a ROTH IRA at a brokerage house like Charles Schwab for example. ROTH IRAs can be established a number of different places. I mention Charles Schwab a lot because they are probably one of the most reputable nationwide. Their costs are very reasonable.

They have very broad investment options and they just are very trustworthy and have been around a long time. The third option would be a brokerage taxable account. That would be the third option. You could be paying taxes on that income and any capital gains that you approve through sales or anything. That would be the order.

The key is to use automatic withholding from your paycheck every month. Before you even get your check from your employer, set it up so they automatically withdraw a percent that you establish with your company to send directly to a Charles Schwab or brokerage account.

Dan Eggertsen: Right or a 401K.

Karl Eggertsen: Yeah 401K or whatever. Put it in your 401K at the company. The point is you don't see the money so you're not tempted to spend it. It's going to go right into your investment account. That is a very powerful, tried and proven principle of sound investing. What you get from that is you get what's called dollar cost averaging.

That is, you're tending to buy, if you invest every month or every two weeks, however often you get your paycheck, that money's going into your account and you're tending to buy more investment, getting more from your money by buying more shares of a stock or more shares of a mutual fund when the market is down than when it is up. When it's up you're putting less in so you're tending to buy low.

Which is what an investor wants to do. When you're doing this month by month, year by year and as your salary increases you can contribute a bigger percentage. You have all this working for you along with the time proven advantages of compounding of your investments. It's a very powerful wealth building tool. These are the basic principles that a beginning investor needs to understand and put into practice in a disciplined way. [06:16.7]

Dan Eggertsen: Right. Excellent detailed answer. We covered a lot of ground there and there may be some things we went over like the ROTH IRA that people just really don't know everything there is to know about that but we will go into detail on that later. It's a different topic altogether as well as some of the other terms that we kind of threw out.

We just wanted people to get a basic understanding of where you start. I think at this level, the raw beginner, there's a big question, I'm going to follow up with this question that I've seen a lot, "How do I decide whether to pay down more debt or start investing?"

Karl Eggertsen: Well...

Dan Eggertsen: It depends on the debt right Dad?

Karl Eggertsen: Well it depends on the nature of the debt, on the amount of the debt but number one you want to have some savings, period. Before you start investing...

Dan Eggertsen: A cushion.

Karl Eggertsen: ...you want to file as much as you need to into your interest bearing savings account to get at least three to six months. So if something happened to your job, something happened in your life where you needed some money for an emergency, it's going to be there, you're not going to be destitute.

You're going to have three to six months, the more the better but three to six months. Then when it comes to debt, credit cards and car loans are not really good debt to have for a long time. You want to get that paid down. I'm not saying that you should pay all your debts off. What I'm saying is, pay them down to a point where you have control of them and then have some money left over to start putting into your investment accounts.

So while you're paying your debt down, as long as you have some money left over that you're comfortable with and can still meet your living needs, do both at the same time. But get the savings there first before you do anything.

Dan Eggertsen: Fantastic. Thanks Dad. Okay?

Karl Eggertsen: Okay.

Dan Eggertsen: Next question. Moving on, “What specific investing advice can you give me given the current market conditions of today?” So how does this strategy change in a down market like this or does it change at all?

Karl Eggertsen: Doesn't change. It doesn't change. You know assuming that one has a job, you know has some income coming in it's not a good idea for anybody to wait for what they think might be the best time to start investing.
[08:52.2]

Dan Eggertsen: Right.

Karl Eggertsen: There's never a best time. You need to start and dollar cost averaging is going to work in all markets, it's going to work in all markets and automatic withdrawing from your salary to do the dollar cost averaging into an investment account is always going to work in all markets.

And I will say something about the current market conditions. This is a once in a lifetime opportunity to get extremely low bargain prices for investments. It's a scary time but if one understands and that's something that the new investor should begin to understand as much as possible is how the markets work.

Dan Eggertsen: Right.

Karl Eggertsen: The bottom line is markets in the US have always come back and in fact, they're already coming back as we speak right now. The stock markets and investment markets are up 20% to 30% in just the last couple, two and a half months. They are coming back and as the economy continues to improve and confidence builds with the consumer and businesses and so on, investors are going to get even more confidence and begin to start investing.

The turnaround of recession usually starts with the stock market. That's the first indicator that the markets are coming back and the economy's coming back and then the next steps of course is consumer confidence, starting to buy again, businesses having more demand on their products and services and eventually businesses start hiring again because they have more demand for their products and services.

So we're already seeing the initial stages of that and just to tell the folks out there listening to this right now, the market is going to come back. It is showing signs of coming back. The stock market's already coming back. Now is a great time to invest as is every time's a great time to invest but particularly so with the prices are still bargain prices for stocks and mutual funds and other types of investments.

Dan Eggertsen: Well look for me personally. Here's how my strategy has changed. The only thing I've changed in this down market is I'm cutting away some spending, you know we don't go out to dinner quite as much and instead of going out to dinner as much and spending things on little novelties, I am shifting that into more investments.

So as long as you have a solid investment plan already – and thank god you set me up Dad, early on with a good plan – I just follow that and in this down market I'm actually just contributing more to that plan. I think, in my mind that's the only thing that should change is you should start investing more because you want to buy low, sell high and it's as low as...

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Karl Eggertsen: If you can do it, absolutely.

Dan Eggertsen: ... as low as ever.

Karl Eggertsen: Yeah if you're buying low, that's what investors like to do is they like to buy low and sell high. That's exactly the opportunity we have. Again, this is a lifetime opportunity. We haven't had such a horrendous bear market for decades and decades.

This is really a lifetime opportunity. For young people starting out buying bargain prices like this, they're going to be so happy they did it when they turn 50, 60, start thinking about retiring. They're going to be much, much better off starting young and taking advantage of all these low prices.

Dan Eggertsen: Right. Okay Dad. On to the third and final question of today. Here's a question, I'm not exactly sure what they're getting at but we keep getting the question over and over. So I'm going to ask it and you can interpret it how you will. "What are my different investment options as a person looking to start investing for the first time?" So I think maybe they're looking, you know what are the different possibilities for me as a new investor for the first time?

Karl Eggertsen: Well I just think in terms of the activities, the steps that an investor can do starting out. I would highly recommend starting off with one mutual fund. It would be called a balanced index mutual fund. It contains a mix of stocks and bonds and cash. Typically they can vary anywhere from 50%, 60% stocks, 30% to 40% bonds, and maybe 5% or 10% cash but they can vary. It depends on the fund that you buy.

Most of them will have some guidelines that the managers of the balanced index mutual fund have to follow so that the investor who invests knows pretty well what the range is going to be. If they want to have more stocks than bonds, they know that this balanced fund will adhere to that or if they want more fixed income from bonds than stocks, they can buy another balanced index fund that will adhere to that range.

So it's important to understand what makes you comfortable, what you think your needs are and go with that. But the balanced index fund is a one stop starting place for the first time investor. It's safe. They're diversified and again, it can be very inexpensive. Index mutual funds tend to be very inexpensive.

Dan Eggertsen: Right.

Karl Eggertsen: The other option if one wants to have a little bit more control of how many stocks and bonds they have, and cash, they could invest in three funds. One would be a total US stock market fund and that could be purchased through Vanguard, through Charles Schwab, through Fidelity.

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The second fund would be a total international or foreign stock fund which contains all of the major companies and in some cases they have foreign index funds, mutual funds that have emerging, you know the emerging countries, the undeveloped countries. They can be very fast growing, so some will have the mix of that too.

And then the third would be a total bond fund that would have a mix of treasuries, corporates, mortgage backed securities, fixed income. The individual investor could establish how much they want to have of each. So they're kind of in somewhat control, they're in very good control really of how much they have of each of these three categories.

A fee only advisor can help with this again, if somebody wants to have an advisor to help them for an hour run by their ideas or talk about their ideas with an advisor if they feel that that would make them more comfortable. But those would be the starting places and these could be placed in a 401K and 403B depending on the funds that they have there.

Most of them would have these type of funds. It could be in a ROTH IRA, in a brokerage house like Charles Schwab and you could also have them of course in a regular investment account that would be taxable, at a brokerage house. So those would be the ways to go I think for a starting investor.

Dan Eggertsen: Yeah well very good Dad. You nailed that one. Again, great information. I hope everyone enjoyed the call. I'd like to thank everyone for their time. It's been another real helpful call and thank you so much Dad.

Karl Eggertsen: Okay Dan. Take care.

Dan Eggertsen: You have a great day.

Karl Eggertsen: Okay bye.

Dan Eggertsen: Bye-bye. All right Dad.

[17:00.9]