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How To Avoid Bankruptcy Causing Stock Investing Mistakes

Karl Eggertsen: Hello.

Dan Eggertsen: Hey Dad.

Karl Eggertsen: Yeah.

Dan Eggertsen: Ready to get going?

Karl Eggertsen: Yeah ready to go.

Dan Eggertsen: All right. Here we go. Hold on just a sec. Okay. I'd like to welcome everyone to the call today. This is Dan Eggertsen along here with my father, Karl Eggertsen and today we're going to field some of the questions that we've had on stock investing. I've boiled it all down to about three questions, three of the top questions that we see over and over again. How you doing today Dad?

Karl Eggertsen: Doing good Dan.

Dan Eggertsen: Well good. You ready to get kicked off here?

Karl Eggertsen: Yeah. Ready to get kicked off.

Dan Eggertsen: All right. Well now the first question that we're seeing from a lot of people is, "How do I get started with actually buying stocks? Where should I start all this?" A lot of these people have never done this before so what's the first thing we want to do?

Karl Eggertsen: Well in good conscience and from all my experience, I cannot recommend that the individual investor just starting out try to start focusing on individual stocks. There are thousands of them, they're very complex to evaluate and get all the information on.

Dan Eggertsen: Yeah. It's a full time job.

Karl Eggertsen: It's a full time job, it takes a lot of energy, it takes a lot of time, and for somebody with a life outside of investing, you know with a lot of other things to do in the life as

most of us have, it's very difficult especially for the first time investor. They usually have again, limited knowledge and experience and often limited money to invest to begin with, especially young folks starting out.

So what I recommend is that a good starting place for the first time investor would be what's referred to as an index mutual fund. There are two types of these funds, or two options that I would recommend for the starting investor to contribute to would be a balanced index funds. These have a mix of stocks and bonds and some cash. They also, many of them, most of them have some foreign exposure to stocks also within their stock portion of the fund. They provide a very diversified, global mix.

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The other option would be if instead of just one fund, you could go buy three funds. These three funds would do basically the same thing as the balanced fund except you would be more in control of the percentage of mix that you have in stocks and bonds and cash. The three funds would be a total stock market index fund which would be the US; Total US Stock Market Index Fund.

The second would be a Total International Index Fund and the third a total bond fund. Each of these funds can be purchased with a first contribution of as little as \$100 and the typical cost is anywhere from 0.9% to about 0.1% to 0.12%. These are very low cost. Where should you start to buy these funds? I would recommend three.

Options would be Charles Schwab, who also has these funds and just recently they lowered their cost down to be very competitive with the low cost leader and that's Vanguard, which would be the second option. It's the Vanguard Investment Company, the Charles Schwab Investment Company, and the other one would be Fidelity Investment Company. They all have these funds and again, you have complete exposure to the investment markets.

Dan Eggertsen: And you can do this online correct?

Karl Eggertsen: You could do this online.

Dan Eggertsen: Through any of the ones that you mentioned.

Karl Eggertsen: That's right and you can call any one of these. These are both brokerage houses and they also provide mutual funds. You can also purchase the mutual funds from any one of the three. Okay? For example, Charles Schwab you could buy Vanguard funds and Fidelity funds and the same for the other companies to depending on which one you go with. Okay? So those would be my recommendations for the first time investor to get exposure to stocks.

Dan Eggertsen: Great. Great and just to expand on that a little bit. My first exposure to investing was when I was in college and that's when I first started getting interested. But the first thing I read about was this day trading. It's the idea – and it gets a lot of hype in the media

and stuff because people like that get rich quick thing where you find the hot stock tip, you put in your life savings and then potentially you can double, triple, ten times that in a day or a month.

That's what I thought investing was at first until you steered me along the right direction in my mid 20s when you started to tell me about the index funds and the mutual funds and where you don't have to take risks like that. Really it is so hard for any individual investor investing in individual stocks to beat those indexes. I think I read a statistic like 90% or 95% of investors of day-traders, they never beat those index funds. So...

Karl Eggertsen: That's exactly right. Statistically the average investor, the individual investor, the amateur investors, as well as the professionals that run actively managed funds.

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95% of these folks, the pros and the amateurs, the individual investors and the pros lose out to investors like you and I over the long term by investing in these index mutual funds. It's very hard to beat the cost, the very low cost and with individual stocks, you're buying and selling on a regular basis and you have the commissions, the brokerage commissions, you've got the trading costs themselves, and you've got taxes. All of these high costs really get in the way of - really take away from any profits that you obtain.

Dan Eggertsen: So here are the benefits of using your strategy is number one; it doesn't take much time. You pick the mutual fund, the index funds that you want like the ones that mentioned and you figure out what percentage of your income you can afford to put into them. You put them in there at a set schedule, a few times a year or whatever and then you just let it go. You don't have to buy and sell, you don't have to pay commissions, you don't have to pay taxes, all these other costs you mentioned. It's kind of a set it and forget it thing and you're going to beat out 95% of the other people trying to do this day trading, get rich quick stuff.

Karl Eggertsen: And that's over long-term. Studies have been done over many decades. It's over time. It boils down to maybe one or two managers, professionals, one or two mutual funds. After 20, 25 years they've been lucky but it gets down to a statistical probability thing, whereas a vast majority of them are not able to keep up with the index funds. It's just because of cost as anything.

Dan Eggertsen: Right. Right. Makes sense Dad. Well you kind of actually hit the second question okay here too. We kind of covered that in the course of our discussion. If there's anything else you want to add. But here would be my second question that we see all the time. It's "What types of stocks should I buy if I'm first starting out?" And I think you kind of hit that but correct me if I'm wrong.

Karl Eggertsen: Well I think what we've hit it trying to buy - to pick stocks - first you want to pick the winning industries. It's what a lot of the professionals try to do. If they look at the overall broad market first and then they say, "Okay. What industries do we expect based upon what we see going on in the markets and in the economy, what industries would seem to do the best?"

Then they try to pick after trying to predict what the market's going to do, which nobody can predict consistently. I'm talking the total stock market. Then you're trying to pick what industry and that's another thing that could be ever changing within the market. Then you try to pick an individual company. That's three things you got to get right and the deeper you get, the less the probability you're going to be correct is.

Companies come and go. Industries are up and down and it can happen overnight. You just never know. Nobody can consistently pick and predict the right companies, the right industries, and what the market's going to do. The best thing that you can do, the two things you've got control of are costs and diversification. You want to be well diversified so that whatever is going to do well, you're riding it up and you're spreading your best across a lot of things.
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It's like an approach that no matter what happens you should be doing okay. In the long run, you're going to be beating out the people that are hyperactively trading, worrying, accruing all the trading costs and paying capital gains taxes, accruing losses. It's very difficult for the average person and you've got to have the interest, you've got to have the knowledge and experience to begin with anyway and even then you're really up against it because you're battling the costs.

Statistically, for the average person, invest in the type of funds that I'm talking about especially in the beginning of your investment life and enjoy your life. Don't worry knowing full well that you're using a strategy that in the long run is going to be much better for you than trying to invest in individual companies and trying to predict what's going to happen in the market.

Dan Eggertsen: And you're definitely going to beat out people that don't do anything; that just sit there with their money in a bank account, not collecting any interest on that. So this stuff isn't hard to do and anybody can get started with this using my dad's simple steps. So listen to what he says because it's worked for me. Okay Dad. The last question we're going to hit today on this topic and I think you've pretty much covered this too, I think. "What criteria do you use when deciding what stocks to invest in?"

Karl Eggertsen: Again, individual stocks is not what I do. I have bought individual stocks in the past. I've tried a lot of different types of investing strategies and utilizing a lot of different investment vehicles and I've learned a lot over the many decades that I've been at this. But if I was to pick - if I was to go ahead and try to find stocks that I felt would be winning ones and would be good ones to invest in, there are several.

Here are some of the things that I would look for that seem to be pretty common across the variety of different big name investors like Warren Buffett and some of the other, Peter Lynch and some of the other very well-known investors out there who have done unusually well, the few that have done unusually well, these are the type of things that they look for. Number one is they make sure that they're looking at a company and picking a company that they can fully understand it.

That it's not so complex that there's a lot of unknowns that they don't fully understand. This is something Warren Buffett always talks about. He picks very simple to understand companies from Coke – a very simple company to understand and it's much more easy to evaluate and track. So be able to understand – pick companies that you can understand.

Number two is seeks companies with reasonable values. In other words, low price to buy based upon their growth and earnings. Number three is, seek stocks with consistent growth. Year and year after year they have consistent growth that's been something that hasn't been just up and down; you know up one year down the net. They look for something that has a consistent steady growth and they invest in firms with strong financial positions. They like to see their current financial assets, twice their current debt and liability.

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The fifth thing is they try to find firms that operate in unique niches with very little competition. So those are some of the very basic things that an investor, hopefully one that would not try to use this approach that doesn't have a strong interest, doesn't have a lot of knowledge, doesn't have – somebody that really is willing to spend the time.

If anybody invests in individual stocks, they should try to keep the individual stocks to no more than about 10% or so of their total portfolio. If they really believe in a company or a few companies that they think are really going to do well, they may have some inside information whatever they have, maybe up to 10%. That's going to have some impact on your portfolio but it's not going to kill you.

Dan Eggertsen: If you're wrong. Right.

Karl Eggertsen: If you're wrong. If you're right, 10% is enough to help your portfolio if things go really bad it's not going to kill you. You've still got 90% very broadly diversified. So again, I don't think individual stocks really a smart way to go particularly for people new to investing but even those that have been at it for a number of years. You've got to understand that it's going to take a lot of time. If you don't spend the time and the effort, you're definitely not going to do well. If you do, you may get lucky but your odds are pretty slight.

Dan Eggertsen: Okay Dad, well said. So just to summarize, the individual stocks, that's for people that maybe want to or are a little more advanced or they want to devote more time to this. But the recommendation is, don't put more than 10% of these individual stocks, these hand-picked stocks into your portfolio. It's not necessary. You can do just as well or better than people that do that by just sticking to the index funds, especially if you're a beginner. So...excellent Dad.

Karl Eggertsen: Let me add one thing real quickly to what you just said. In that 10%, there is a new type of fund out there, I think many of the people listening to this message would be familiar but many may not. There's a new mutual fund, it's fairly new. It's called an exchange traded fund. There are exchange traded funds that invest in specific industries and sectors. Instead of buying a company, a small piece of a total sector, you can get broad diversification in

that sector through an exchange traded fund. They are very cheap, they trade like a sock, you can buy and sell at any time during the day.

Dan Eggertsen: That's right.

Karl Eggertsen: Instead of in that 10% of your portfolio if you want to make a bet on an industry where there're some companies that you feel strongly about, you can spread your bets within that industry and have a much greater likelihood of not getting killed and at the same time maybe profiting significantly by spreading your bets within an industry where that company you may have a lot of interest in resides. So that is a way of indexing within that 10% in industries that you feel particularly strongly about.

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Dan Eggertsen: Okay Dad.

Karl Eggertsen: Okay?

Dan Eggertsen: Well said. Excellent. Well thanks so much for everyone being on the call today. I appreciate everyone's time and thank you so much Dad. We'll talk to you soon.

Karl Eggertsen: Okay Dan.

Dan Eggertsen: All right. Bye-bye.

Karl Eggertsen: Take care. Bye.

Dan Eggertsen: Bye everybody.

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