10 STEPS FOR FUNDAMENTAL LONG-TERM INVESTING

Compound your way to your goals

ABSTRACT

The stock market is crazy! You need to know how to eliminate the noise and focus on the fundamentals that will drive you to your investing success!

Sven Carlin, Ph.D.

FREE STOCK MARKET INVESTING COURSE

10 Step Stock Market Investing Fundamentals Handbook (for beginners & seasoned investors)

1) HOW TO START – CLEAR REALISTIC GOAL – FIND A WAY TO GET THERE – COMPOUND YOUR WAY THERE!
2) IT STARTS WITH SAVINGS OR MORE
3) BASIC INVESTING FUNDAMENTALS
4) AVAILABLE ASSET CLASSES TO INVEST IN
5) INVESTING IN REAL ESTATE - the rule of 66!
6) INVESTING IN STOCKS
7) FINDING A BROKER
8) INVESTING STRATEGIES (being an owner, diversification)
9) LONG-TERM INVESTING AND COMPOUNDING – building your wealth
10) Back to you – the right MINDSET – always believe the world will be a better place

ABOUT THE AUTHOR

Sven Carlin Ph.D. is the author of the Modern Value Investing book, a passionate investor, professional business researcher that loves sharing his knowledge on YouTube and you can learn more about his work (book, research, charity, free course etc.) on his website www.svencarlin.com.

Contents

HOW TO START INVESTING – HAVE A CLEAR GOAL AND UNDERSTAND THE POWER OF INVESTING/COMPOUNDING

In chapter 1, we will discuss:

1) **How the stock market is crazy** and what are the things you can focus on to eliminate the noise, the craziness

2) **How setting a clear goal** is the start when it comes to investing. You'll later, over time, reverse engineer the ways to get you your goal safely and surely. If you don't have a goal, you'll likely get lost in the craziness/noise of the stock market.

3) To explain **what investing is**, we'll give an extreme example that happened over 80 years (only 30 investing years, don't worry). This will start painting the picture of what are the fundamentals of investing – something you rarely see these days.

4) **Investing is about cash flow streams that create new cash flow streams** – the power of **compounding** – make it work for you, not against you!

5) **How does the stock market's volatility impact your investing** – how you can always be happy as an investor, no matter what happens in the market!

1) THE STOCK MARKET IS CRAZY!

Beginning to invest is a daunting task. Even seasoned investors still find it daunting to navigate what goes on in the market. Just take a look at what has been going on over the last months (time of writing June 2020). The S&P 500 index fell 30% in just one month from the 25th of February to the 23rd of March and then shoot back up.

S&P 500 Index – Source: Cnn Money

On a daily basis, things get even crazier. Just as I am writing this, the S&P 500 fell almost 6% in one day.

S&P 500 Index – Source: [Cnn Money]

How can anyone normal even consider investing in stocks? Individual stocks are even more ludicrous when compared to the stock market.

A stock representing a company that has no revenue at all, Nikola (Nasdaq: NKLA) jumped more than 450% in just a few months, despite all the issues with the economy and automotive industry.

Nikola Corporation stock price – Source: CNN Money

On the other hand, companies like Hertz have gone under and many investors lost more than 97% of their investment.

Hertz Stock Price – Source: CNN Money

So, the stock market is definitely crazy! But you don't have to be crazy to invest in stocks – all you need is a fundamental, rational perspective where stocks are a vehicle that you can use to reach your financial goals. All the discussed above is just stock market noise. If you want to be an investor, you need to focus on fundamentals and the first fundamental of investing is:

SETTING A CLEAR GOAL!

By first setting a goal, you take control of the market, you don't allow for it to take control of your finances! You are the one that decides whether the stock market or specific stocks are the vehicle for you or not. By setting a goal and looking for vehicles that will lead you there, you start taking control of your financial life.

2) SETTING A CLEAR GOAL

I am a firm believer that setting a goal in whatever you do, be it life or investing, is crucial. By setting a goal you focus on the most important thing, you have something that constantly reminds you of why you are doing things and unconsciously, you mind will start to find ways for you to get to that goal.

In Ray Dalio's book Principles, already the second principle is about setting goals. He uses a 5-step process to take the most out of our goals:

1. Have clear goals

2. Identify and don't tolerate the problems that stand in the way of your achieving those goals

3. Accurately diagnose the problems to get at their root causes

4. Design plans that will get you around them

5. Do what's necessary to push these designs trough results.

The same perfectly applies to investing.

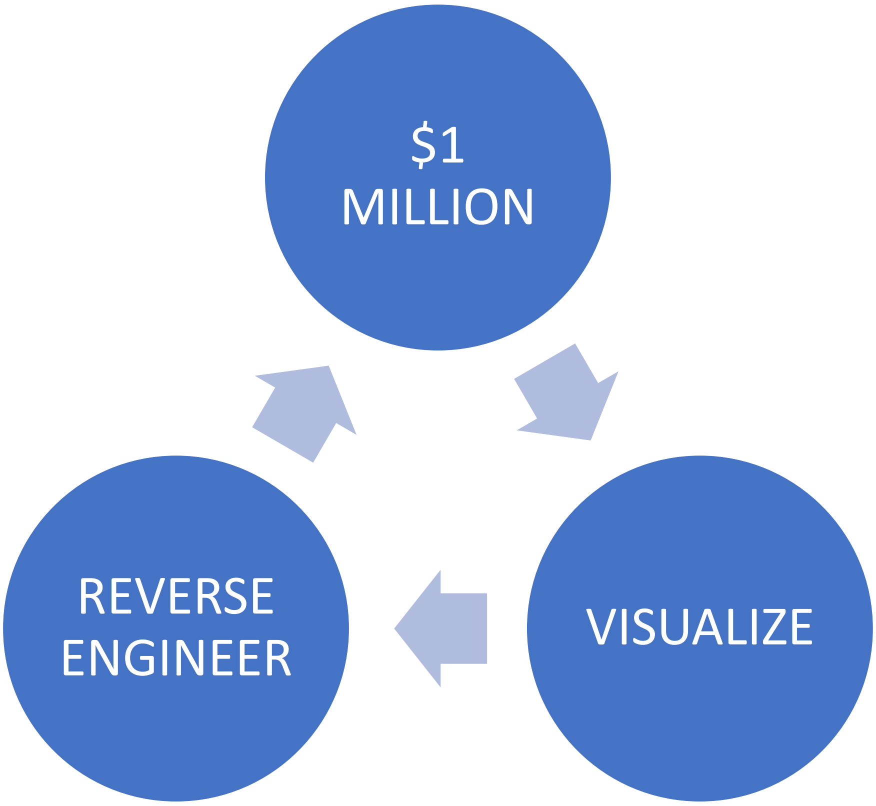
1. By first setting a goal, you take control of the market, you don't allow for it to take control of your finances!

2,3. You are the one that decides whether the stock market or specific stocks are the vehicle for you or not. YOU ELIMINATE & DIAGNOSE PROBLEMS

4. By setting a goal and looking for vehicles that will lead you there, you start taking control of your financial life. You start finding and designing ways to get you where you want to get! DESIGNING A PLAN

5. DOING WHAT IT TAKES! When you have good plan – it is easier to execute on it!

Let's say your goal is to have $1 million in your portfolio of assets. By setting it as a goal, by visualizing it, you will start looking for the ways that will bring you there! You will start to learn what are the best vehicles, the best tools to assess those vehicles (this handbook will help with that), thus solve the problems, and over time, you will reverse engineer the way to a million and know exactly what you have to do not to miss out on your goal. As you enter a process of learning and expanding your horizons, you will likely surpass your goals and wildest dreams, but let's talk about that some other time.

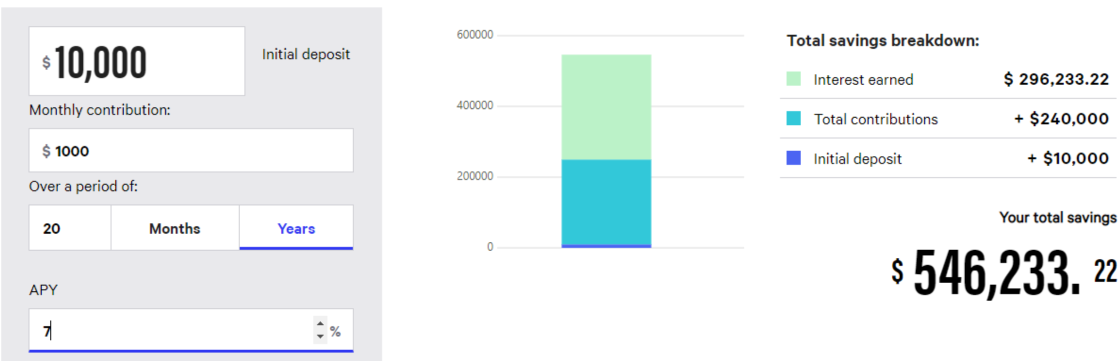


By learning and understanding the process, you will also understand whether what you know now is enough and realistic to bring you to your financial goals. I don't mean whether the goal is realistic or not, I mean whether it is realistic that the vehicles you have chosen will bring you to your goal.

With an open mind, by taking the learning path, there is no way you can miss on achieving your goal. You just have to be like a stamp – stick to the letter until it brings you there. I know stamps are not used anymore and have been forgotten, like, I am afraid, investing fundamentals, which is exactly why I am using the stamp analogy and writing this handbook now in 2020. Given what has been going on over the last decade, I feel most have lost sight of what life cycle investing is, what investing based on fundamentals is.

PLAYING WITH THE SAVINGS CALCULATOR

Just to give you an idea of what is achievable in the world of investing, let's play with a savings/compounding calculator.



The first thought you might have is whether investing $240k over 20 years is worth having half a million at the end. Well, the most important thing here is not the return, but the saving and the goal to accumulate money. Most likely, with the right mindset and goals, you surpass your goal by far or reach it much earlier. The key here is to build and accumulate wealth and 7% per year is an achievable despite the current zero interest rate environment.

Over time, with patience and a strong willingness to learn, you might find investments with 10% or even higher expected returns. The key is that you don't expect things do develop linearly. I can assure you there will never be two years in a row where your portfolio grows 7%. So, don't be concerned about linear returns. We are going to discuss the fundamentals of investing a bit more in a special, more technical chapter that will show you how to estimate expected returns from an investment vehicle. Let me now give you an example of what invest over the long term is.

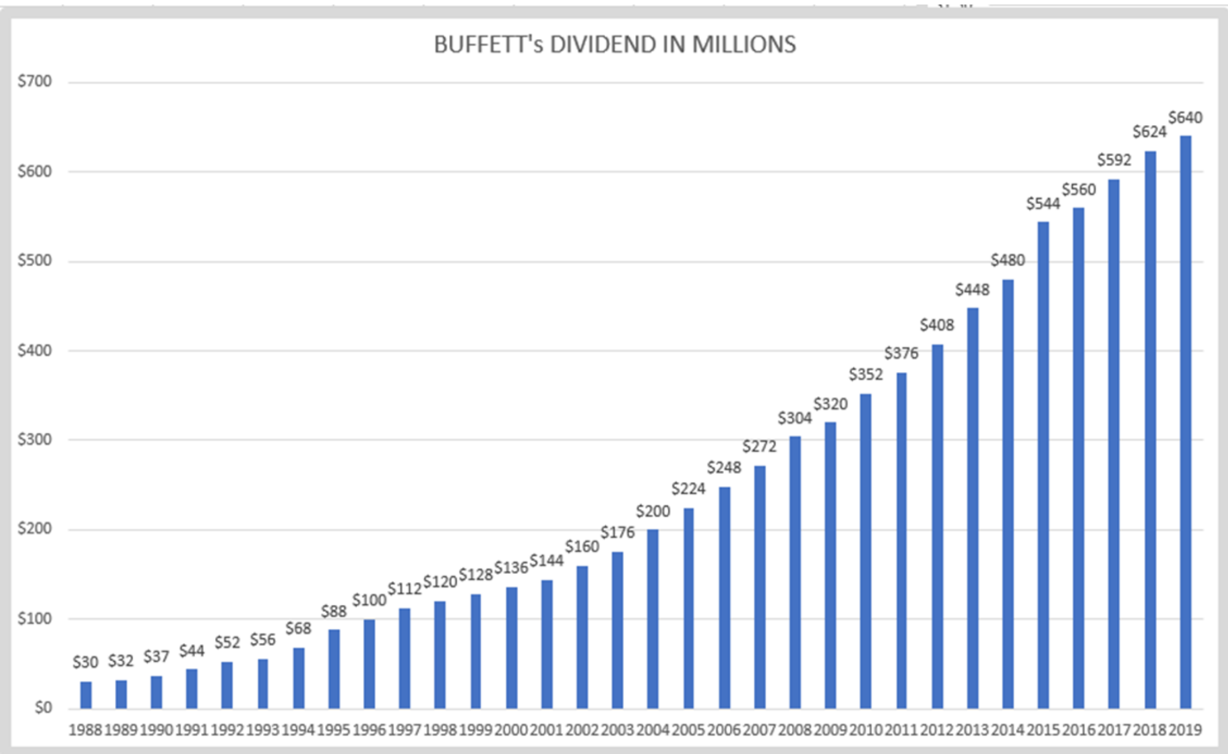
3) LONG-TERM INVESTING EXAMPLE

Buffett's Coca Cola example is one of the best and one of my favourite lessons for explaining what investing really is.

When he was a kid, Warren would buy 6 bottles of Coke for 25 cents and then sell them at a dime each.

He was in the Coca Cola business in 1937, during the hot Omaha summers. This also means that Buffett had known the company from a young age, but didn't invest in it until 1988. So, for practically 50 years, Buffett knew about it, but never invested. Only in 1988 he decided to give it a go and put in $1.2 billion. KO's stock wasn't particularly cheap, didn't even fall exorbitantly during the 1987 crash and was significantly up from the early 80s. But that didn't stop Buffett.

The dividend was 8 cents per share in 1988, giving a yield of 3.3% on a price of $2.4. A 3.3% yield wasn't much in the 1980s and in line with the 3.63% yield for the S&P 500 on the 1st of January 1988. So, why did Warren invest in Coca Cola in 1988? Well, he simply believed it was a good business, that will likely grow in the future and that it will make a good investment in the long-term. And that is exactly what it became.

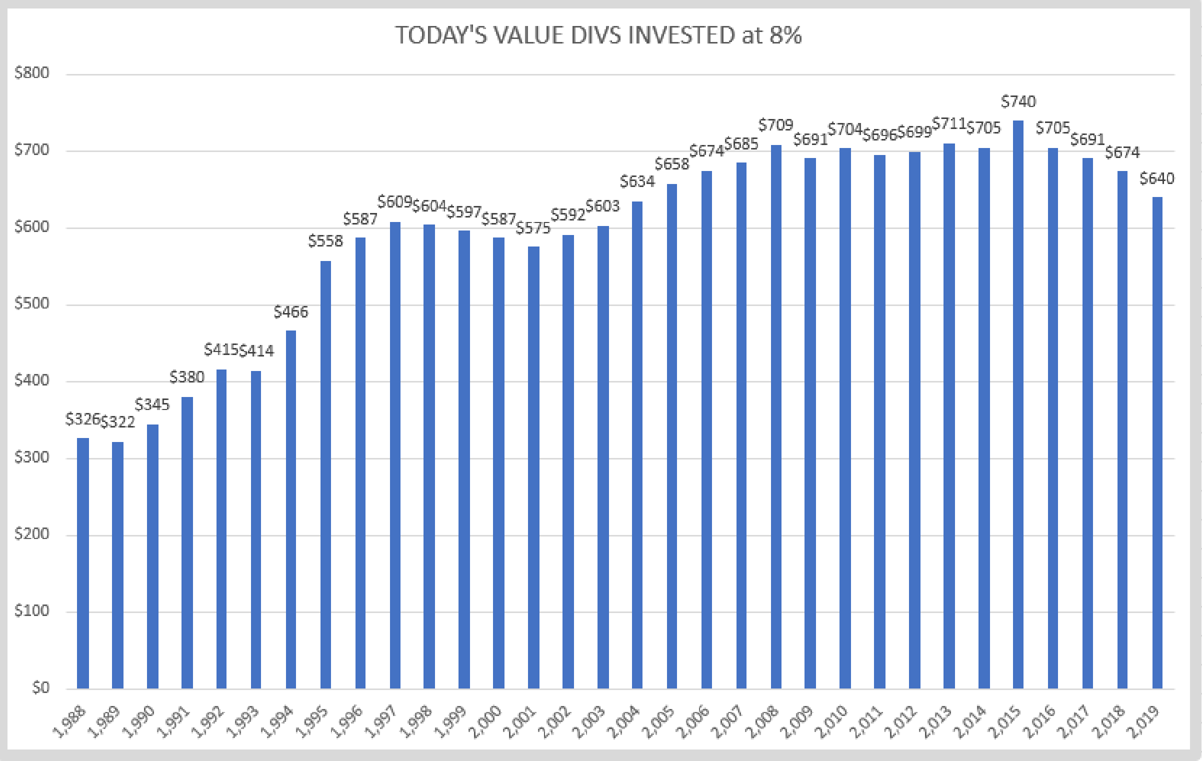


On his investment of $1.2 billion, he is now getting around $640 million in dividends per year. The total amount of dividends received since the purchase is approximately $8 billion and the current value of the investment is around $20 billion. But that is not all!

4) CREATING NEW STREAMS OF CASH FLOWS

Now, this doesn't mean that his return on the investment is 'only' $20 billion plus the $8 billion he got in the form of dividends. His actual return is much higher because he reinvested those dividends over time to create new streams of cash flows.

If I apply an 8% yearly return on the dividends he received since the purchase, the below would be the present value of those dividends. The total amount is $19 billion.



Therefore, with an investment in a boring company that everybody knew since like ever, Buffett managed to turn $1.2 billion into $40 billion in 30 years and he will still get his $600 million dividend this year, for many more years to come that he will compound.

We will discuss compounding more in detail and dedicate a special chapter to it, but the morale of this story is that the ups and downs of the stock market don't mean much. People are so focused on stock prices because it is the easiest thing to do, it is immediate feedback that you get and it is exciting as stocks go up and down. However, to be a real investor, you have to forget about stock prices and focus on those dividends and the new cash streams you can create with that. KO's stock didn't go anywhere from 1997 to 2014, that is almost two decades and some have considered it a terrible investment, a dud. Well, that is the difference between owning businesses and speculating.

(note: dividends are just one part of earnings – the company can spend its earnings also on buybacks or reinvest them back in the business where they should compound for you – we will discuss this more in the future, just to say it is not only about dividends).

Take a look at the top 10 Bloomberg billionaire list, not many speculators there, only business owners.

Rank	Name	Total net worth	$ Last change	$ YTD change	Country	Industry
1	Jeff Bezos	$154B	-$5.02B	+$38.9B	United States	Technology
2	Bill Gates	$111B	-$4.48B	-$2.12B	United States	Technology
3	Bernard Arnault	$88.6B	-$6.25B	-$16.7B	France	Consumer
4	Mark Zuckerberg	$85.3B	-$4.56B	+$6.89B	United States	Technology
5	Warren Buffett	$70.5B	-$5.06B	-$18.8B	United States	Diversified
6	Steve Ballmer	$67.6B	-$3.45B	+$9.45B	United States	Technology
7	Larry Page	$67.0B	-$2.74B	+$2.36B	United States	Technology
8	Sergey Brin	$64.9B	-$2.65B	+$2.22B	United States	Technology
9	Francoise Bettencourt Meyers	$59.6B	-$899M	+$594M	France	Consumer
10	Amancio Ortega	$59.0B	-$3.84B	-$16.4B	Spain	Retail

Source: [Bloomberg]

5) THE UPS AND DOWNS OF THE STOCK MARKET

To make a full cycle and return to where we started, I can give you the only certainty when it comes to investing in stocks; prices will go up and down all the time. What is impossible to do is to predict where will prices go in the short and medium term (even the best traders don't try to predict the market, they just make calculated bets). So, if you want to make your investing journey easy, with much less stress, be an investor! Eliminate the noise and focus on owning businesses! Plus, by being an investor, you don't really care about the ups and sown of the market!

If stocks fall – GREAT! Why great? Well, you can reinvest the cash flow you receive into new streams and also get a higher return on them because stock prices have fallen. As an investor, you actually rejoice when stock prices fall, not when those go up.

It was between 1968 and 1982 that Buffett actually built the fortune of Berkshire, the cash flows that allowed him to buy 9% of Coca Cola in 1988, Burlington Santa Fe in 2009, 5.7% of Apple over the last years and many other businesses and parts of businesses. He focused on accumulating cash flows, owning businesses and increasing earnings even if the stock market didn't go anywhere for 15 years.

The key thing is that the lower prices allowed him to buy more, to accumulate more for less. Think about that the next time you see a stock market crash.

If stocks go up? Well, nothing to complain either. Simply compare your investing options, the likely return and keep in mind that you might have even more cash flows to create new cash flows as there will likely be takeovers and many others things that always happen when it comes to the boring long-term game of investing.