HOW TO START INVESTING IN 7 STEPS

The Long-Term Process of Wealth Accumulation

ABSTRACT

MONEY, FINANCE and LONG-TERM THINKING are some of the hardest life factors to grasp and do well with - here is a structured version to help you navigate the life investing cycle.

Sven Carlin, Ph.D.

FREE STOCK MARKET INVESTING COURSE

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ABOUT THE AUTHOR

Sven Carlin Ph.D.

Sven Carlin is passionate about value investing and financial education.

JOB: Stock Market Research Platform - sharing research and managing his own portfolios - 15% per year since inception of the Research Platform in 2018. Focused on finding value investments globally.

BOOK: Modern Value Investing

Past:

- Assistant Professor of finance and accounting at the University of Applied Sciences in Amsterdam (2015-2018)
- Bloomberg - Data Researcher - 2014

Social media presence:

YouTube: 225k subscribers - Stock analyses, investment strategy, investing education and some market commentary videos.

Seeking Alpha Contributor since 2016

Free Stock Market Investing Course

Not that active in other places. More about Sven Carlin on www.svencarlin.com

STEP 1 - WHY START INVESTING?!

When it comes to doing anything in life, perhaps more important than the how is the why. Here is why you should consider making investing a core part of your life:

Statement:

"With 15% of your income invested, you will likely make more money from investing than from working in your life-time."

VIDEO VERSION - Investing will make you more money than your job

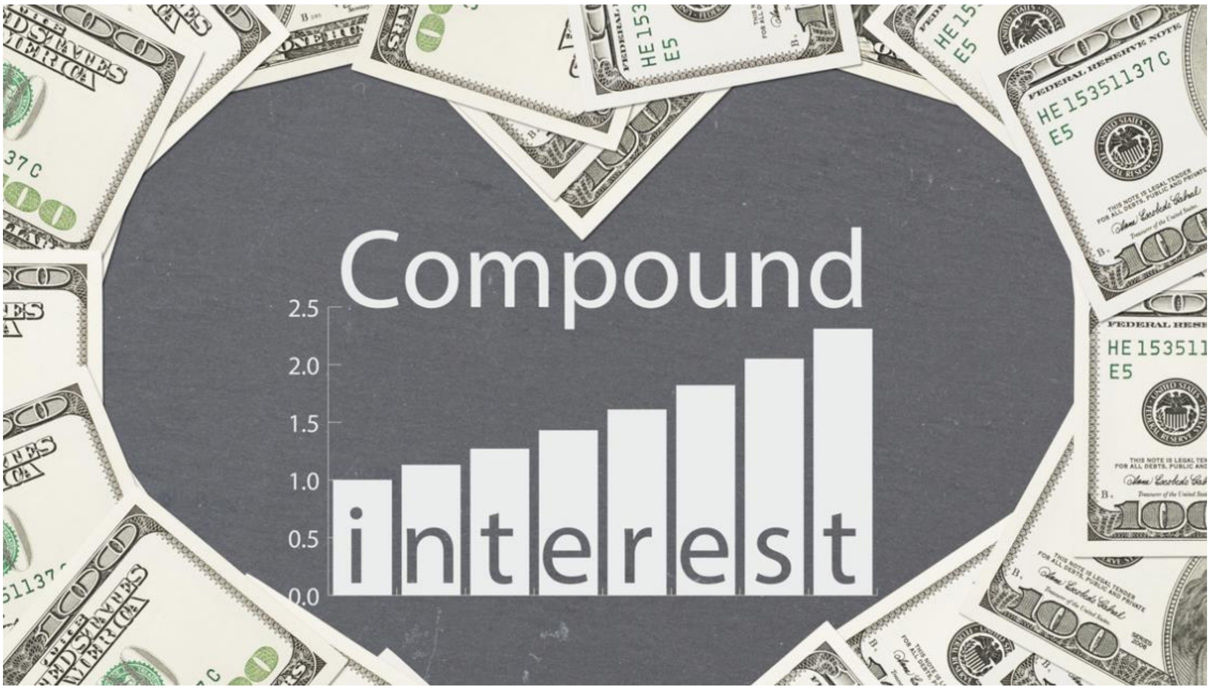
A normal life usually includes 4 to 8 years of higher education after elementary education, followed by at least 40 years of work to get to a pension. In summary, you spend 50 years of your life working for money in the hope the government or the companies you worked for, provide for your pension.

(some say: JOB - just over broke)

Having a job for 40 years also includes heavy investing at first. Let's say you go to school to get a higher degree where you on average spend 4 years of your life. The first investment here is the missed opportunity. If you would work, you could easily save 25 thousand per year, thus whether you paid for your education or not, you invested already at least a hundred thousand into your job.

Of course, you do that to increase your future income. Thus, you are looking for a return on investment. As you see, investing is not just about money, but it relates to all aspects of life too.

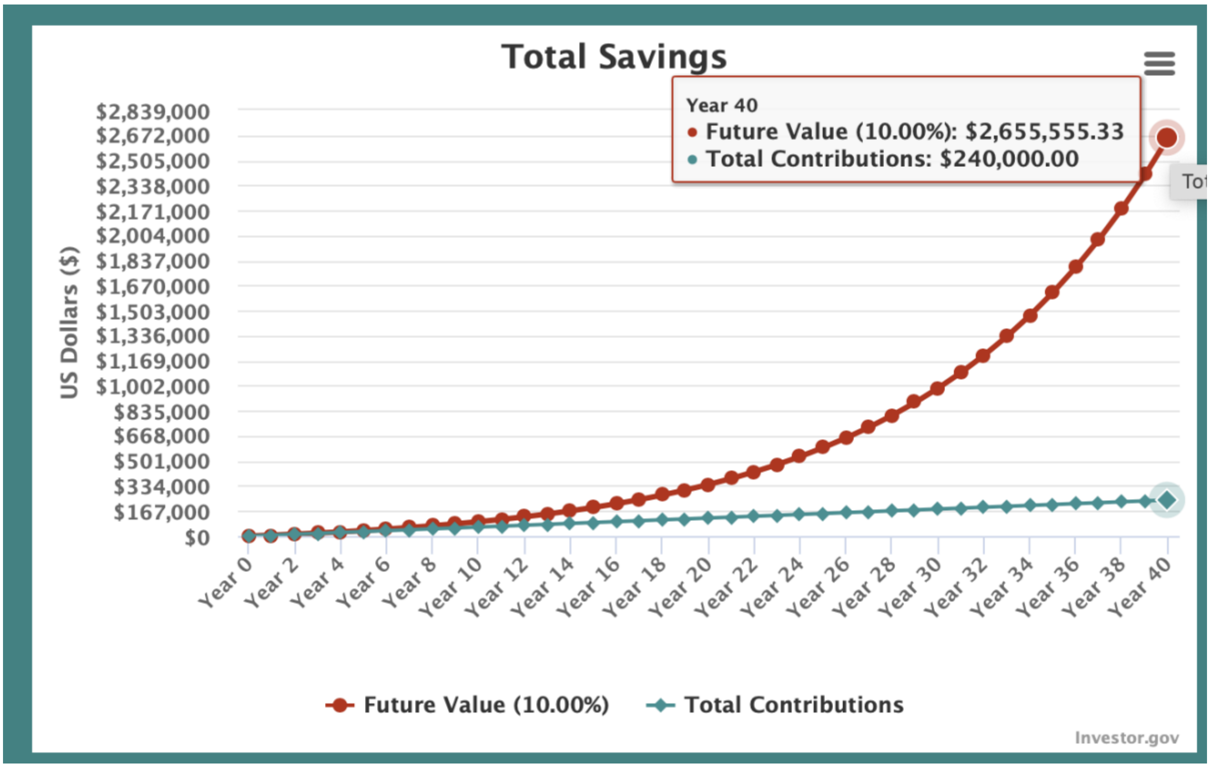
In that line, what if I told you that an average person can easily make more money through investing than working thanks to the power of your money working for you, i.e. the power of compounding.



Compounding Example

Let's take an example of a person that invests 500 per month or 6,000 per year and makes 60,000 per year. The investment is thus 10% of the person's income, just 10% which is something that should be achievable for anyone.

If you invest with an average return of 10% over 40 years, the total amount invested is 240 thousand while the value of the investment portfolio reaches 2.6 million thanks to the power of compounding.

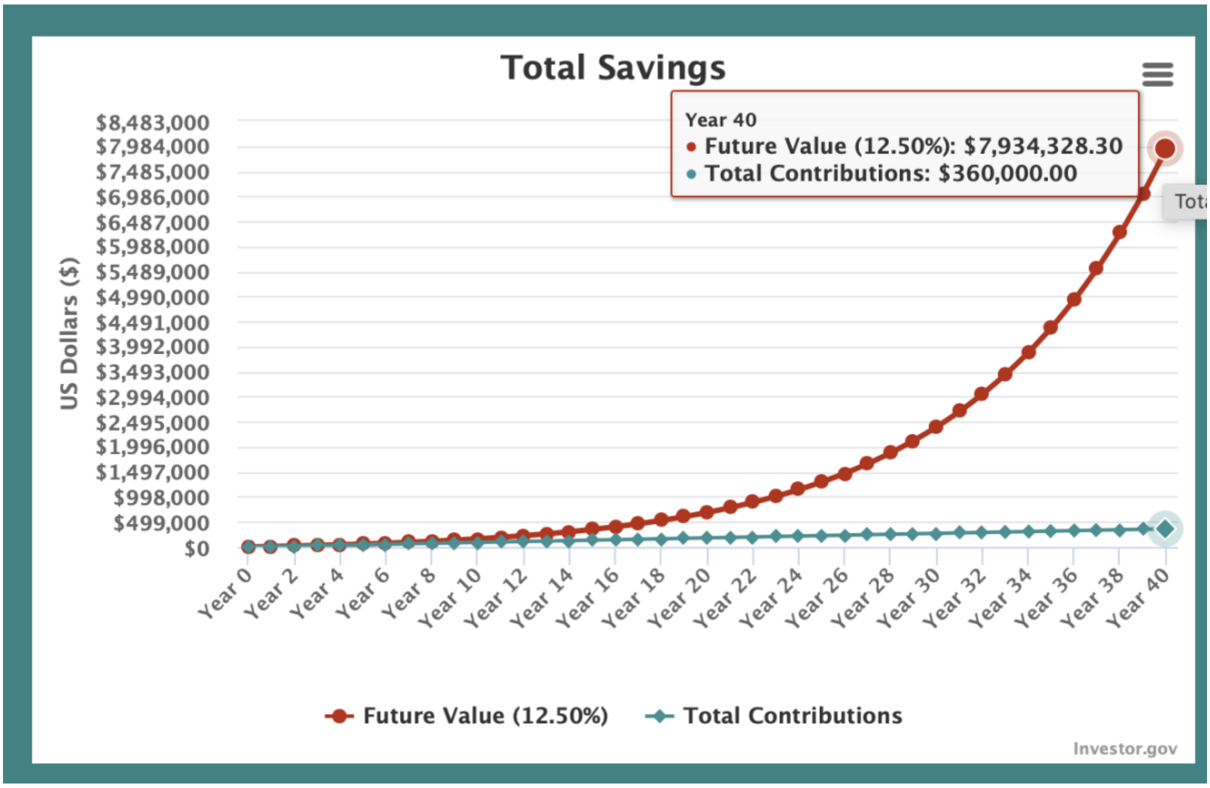


The same person, by working for 40 years making 60 thousand a year would make 2.4 million in total.

Thus, if you first spend many years of your life and even a bit of money on your education so you can have an income first, then you spend 40 years working, many forget that by investing just 10% of your income you should make more than with your job!

Wouldn't it be wise to spend also some time to learn how to invest and compound your wealth?

Now imagine investing 15% of your income and then getting to a 12.5% return on your investment. You could quickly have 3 times the money you would ever get from your working salary.



The beauty of investing is exactly the above, it can give you exceptional wealth jumps in life that are otherwise very hard to achieve. Plus, with a bit of wisdom and knowledge of what to look for, you can take advantage of market irrationalities and make sound investments that push you ahead in life. At least that is what I did.

I wish to give more color to this because if the fact that you can easily make more money thanks to investing in your lifetime than from working, the key basis for investing is set and everything else is then downhill from here.

If we take the average working week of 35 hours, thus 7 hours per day, the above tells you that by investing the money you make from just 1 of those 7 hours, you can make more money in your life than from working all those 7 hours, 52 weeks, and 40 years. It sounds crazy, but it isn't.

Now, do you want to hear something even crazier?

Life Investing Focus - Accumulating Wealth Gets Easy If You Practice

The 35-hour work week is the average, nobody prohibits you to work 42 hours per week, and let's imagine you now invest that extra 7 hours on top of your previous 7 weekly hours invested. The 500 you were investing are now 1,000 per month. If 500 per month with a 10% return per year ends up at 2.6 million after 40 years, 1,000 will logically end up at 5.2 million.

As the 1% household net worth in the US was $11 million in 2019, that means that by investing 7 hours of your average work week, doubling that by adding 7 more work hours, and then doing that with your spouse, you end up in the 1% of the population. Not bad for something that is just a habit over an average life time.

Keep in mind we used average numbers here, but I would dare to assume that if you came to this part of this presentation, you don't aim to be average in your life. If you don't aim to be average in your life, let's go to the next key factor on how to gain the most for investing.

STEP 2 - THE BEST INVESTMENT YOU CAN EVER MAKE

[Video version - How I made more than 100% per year]

Warren Buffett is the most famous investor of all times because he achieved returns of 20% per year.

2020	2.4	18.4
2021	29.6	28.7
2022	4.0	(18.1)
Compounded Annual Gain – 1965-2022	19.8%	9.9%
Overall Gain – 1964-2022	3,787,464%	24,708%

Source: Berkshire Letter 2022

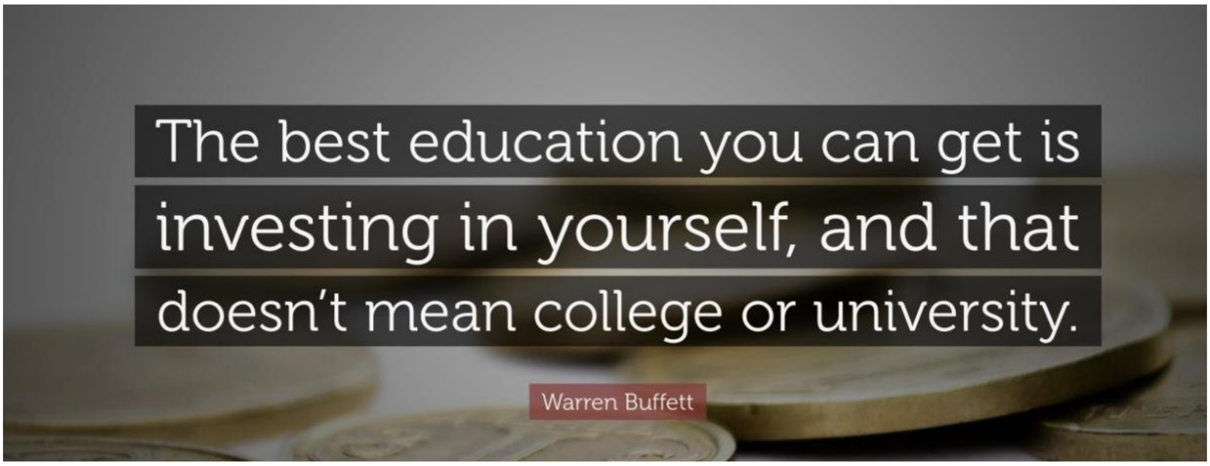
What if I told you that there is an investment you can make, that can give you returns of 100% or even higher per year?

And what if I told you, it is not an exclusive investment for rich people only, it is not a crypto scam, it is not a hot stock nor a Ponzi scheme?

Would you believe me?

What if I told you have already invested, that the returns are already there, but somehow we as people tend to forget about this investment because nobody is really interested in us making that investment?

Now, don't write me off as crazy, even Warren Buffett says it is the best investment you can make!!



Education, but not necessarily a degree, just investing in your power to solve problems for others, to make you more valuable, is something that will deliver the best returns.

Let me give you some examples of how this actually works in life, and I'll also share my experience:-)

Example 1 - investing 500 per month and spending one hour a day focusing on it!

I share stock analyses and investing content on YouTube and other places. For example, my last two articles on Seeking Alpha got around 10,000 views.

Article	PUBLISHED	PAGE VIEWS
Exclusive Apple Is A Strong Sell On High Valuation & Business...	Feb 21, 7:04 PM	8,552
It Is Unlikely I'll Invest In Berkshire Hathaway Soon	Jan 10, 8:03 AM	11,551

And when I make a video, I usually get around 15,000 views.

Video	Visibility	Monetisation	Restrictions	Date	Views
Micron Stock Analysis - Good, but not ... Micron stock is a perfect example of a cyclical business. My passion is to look...	Public	On	None	3 Mar 2023 Published	14,923
Buffett's Letter & BRK Earnings + What ... Berkshire Hathaway just published earnings and Warren Buffett published h...	Public	On	None	1 Mar 2023 Published	14,375
ETFs, Bonds, Emerging Markets, Europ... A discussion on how to invest $10,000 according to Bloomberg specialist. My...	Public	On	None	26 Feb 2023 Published	16,716
Google Is A Better Business Than Reta... STOCK MARKET RESEARCH PLATFORM: https://sven-carlin-research-...	Public	On	None	24 Feb 2023 Published	14,739
Apple Is A Strong Sell On Valuation An...	Public	On	None	20 Feb 2023 Published	12,874

Nothing wrong with that, it works for me, but let's say you spend 1 hour a day on financial content, news, or even worse, macroeconomic content that I know many of you like.

That sums up to 7 hours a week or 30 hours a month. Let's multiply that with $15, which is the minimum one that speaks English should earn per hour, we get to $450 per month or $5,400 per year.

(Note: if you don't make $15 per hour, then this article is of the utmost importance for you)

Let's say you have a portfolio of $100,000 - you are spending 5.4% of that in managing your portfolio via spending your time. Ok, it might be for investing education, but be careful it is not just mental masturbation to keep you entertained. Because if it is, then you are not investing in the things that give you the maximum return.

- **MACRO CONTENT???**
- **1 hour a day watching Bloomberg or YT or other!**
- **1 hour, times $15, times 365 = $5745 per year**
- **$100k portfolio – cost of management is minimally $5%**

Another note here, the financial entertainment industry is extremely powerful, but that power is not used to help you, it is used to help them. As a person that makes money in the industry, I can tell you immediately that 99% of the content that we create is not valuable at all, you are better off reading a few good books, because 99% of the content out there is either for entertainment or to sell you something. Anyway, be careful because whaterver content you are consuming, it is very likely YOU are the product.

Nevertheless, the question is whether you are getting the best return on your time, on your mental investment?

Now, there is nothing wrong in learning about investing, but learning about investing and focusing on that has to come second, investing must come only after you have maximized investing into your income potential, only after you have squeezed every drop out of yourself. Let me share my life example.

In the video discussing why it is important to invest in your lifetime, I shared how in 2007 my savings were 50k, while in 2010 I had only 10k.

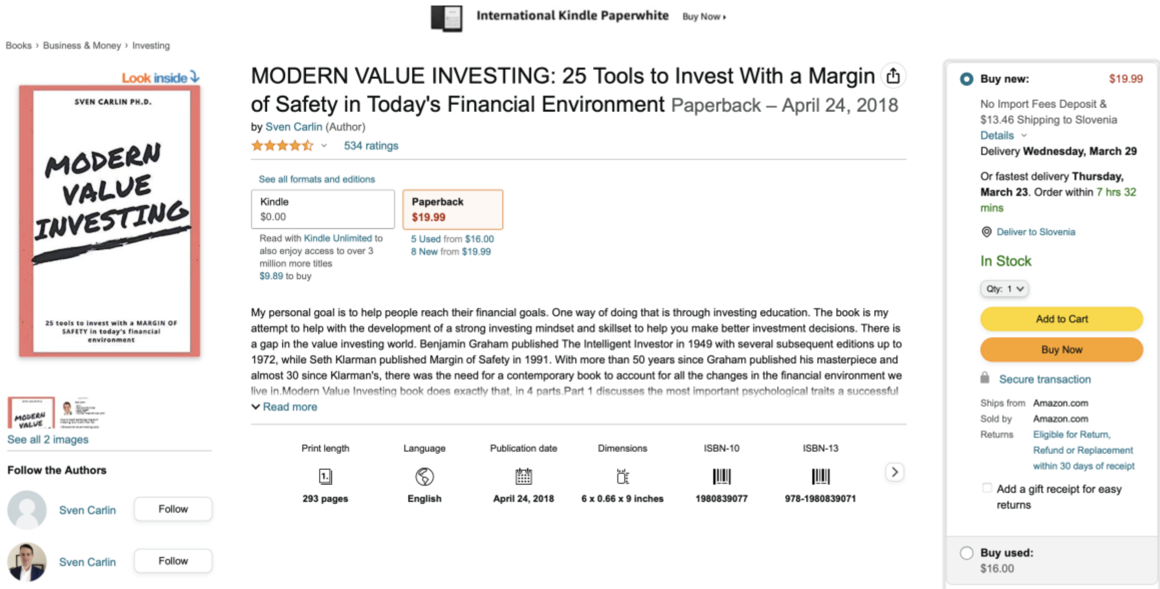
Those 35k were used for my Ph.D. - 10k, I also bought a boat (18K) and I lost about 8k in the stock market during the 2008 crash. Now, the returns on the 10k invested in my Ph.D. can't even be measured with any normal investment.

I will tell you just this: my yearly salary in 2010 was 10k, while when I got my first job as an Assistant Professor in Finance and Accounting and the University of Applied Sciences in Amsterdam, my net yearly salary net was around 40k. So, the 10k investment brought an additional 30k per year to my income. That is something very hard to get by investing in stocks.

So, my message is: yes, learn about investing, but only after you have maximized your income earning potential, only after you have invested in yourself.

I'll give you another example, in 2013 my wife and I moved to London. I just turned 30 and didn't want to live in rooms like all my other colleagues at Bloomberg did, so we took an apartment and my wife also decided to focus on studying. Thus, our 10 months in London ended up costing us around 10k, despite the salary from Bloomberg.

Some would say it was a loss, but I think we both learned English there, and the return on a language like English is forever. In 2017 I wrote a book in English and the returns on that have been stellar. I don't know exactly how many books have been sold, but with 534 ratings it is not bad. All of this, thanks to me learning English. Again, no investment could have ever returned that much. Not even to mention becoming an Assistant professor in Amsterdam.

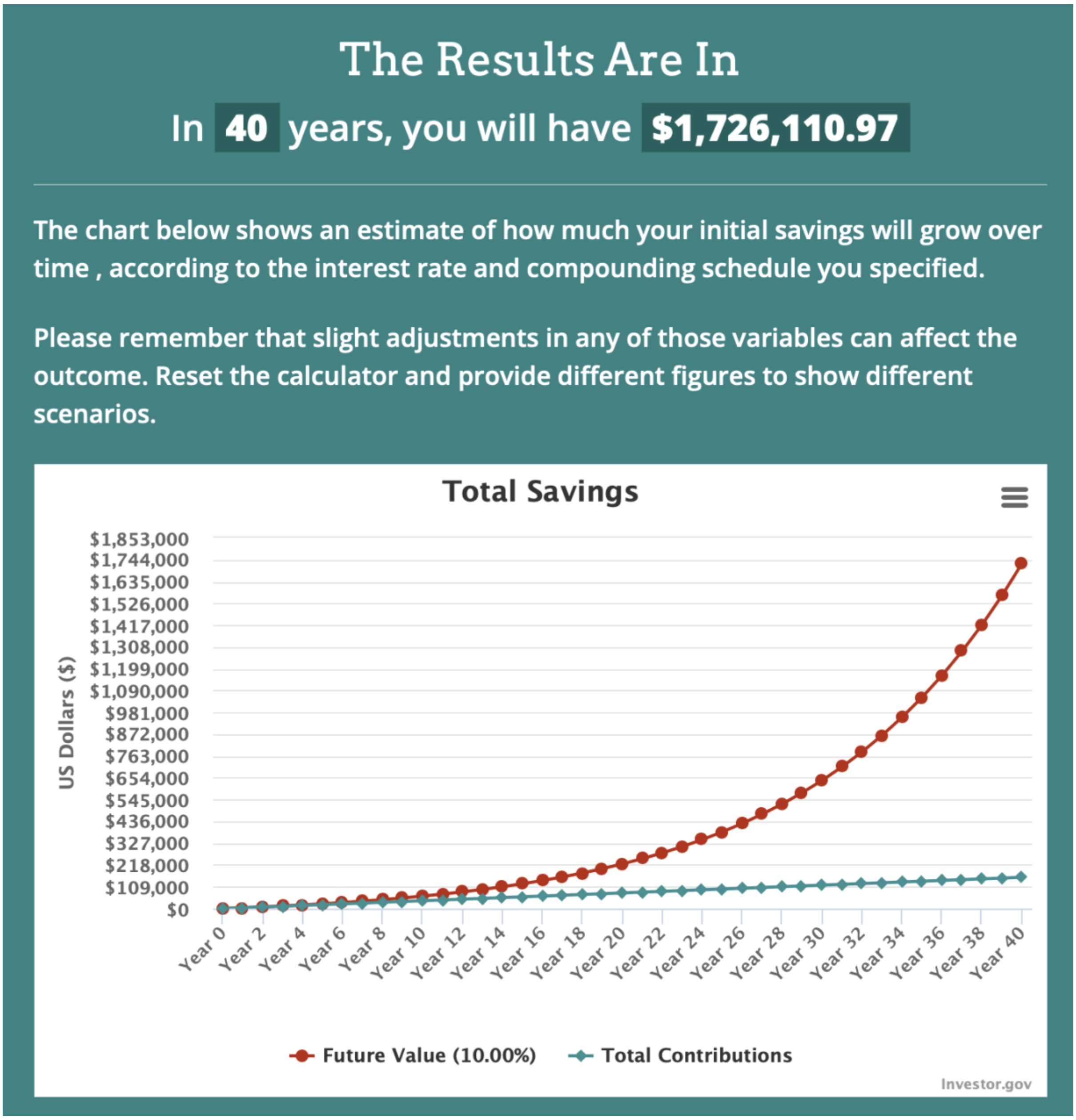


Yes, invest time into learning how to invest, but don't forget to only do it after you have maximized your potential income, or when you feel that you are in a good place when it comes to your income and work/life balance.

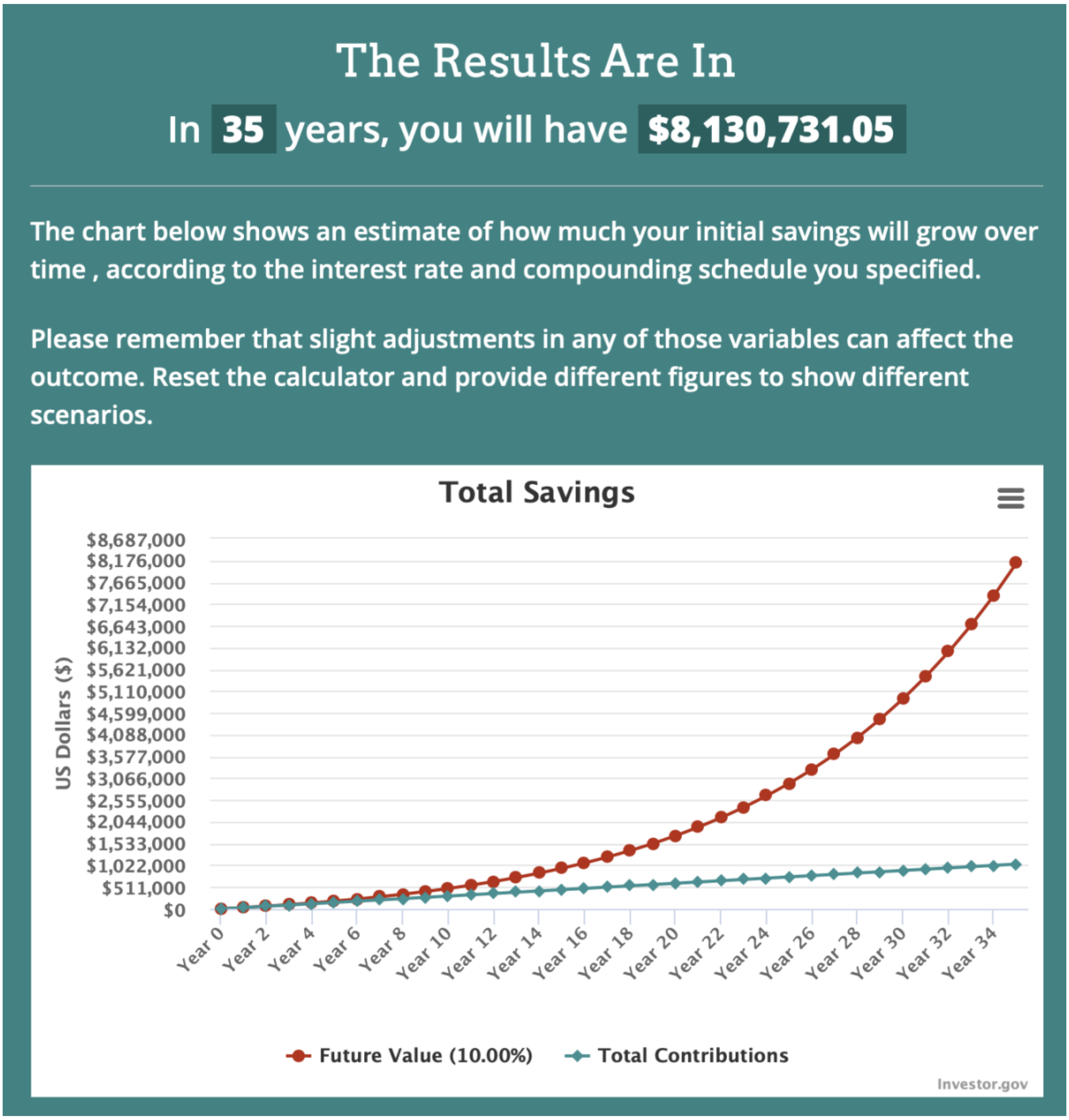
The Huge Returns from Investing In Yourself

I firmly believe that with 5 years of dedicated self-improvement, anyone can double their income. Let's see how that works on the investing front. Keep in mind doubling your income doesn't just double your wealth over time, but much, much more because it is unlikely you will double your spending too. Let's elaborate.

Let's say you make 50k and invest 7.5k per year. In 40 years, with a 10% return you will have 1.7 million, not bad.



Let's now say that you invest the yearly 7,500 in yourself and that after year 5 you manage to double your income, from 50 to 100k. And then, you decide to invest spend 20k more, but to invest 30k per year for the remaining 35 years.



That is 5 times more money....

Plus, if you have 8 million, it is very likely that when you retire you can just keep on living as you did from your dividend income. With just 1.7 million, depending on how the market goes, you might be forced to sell here or there and that is not a comfortable situation to be because the the markets are fickle, and usually those turn on you when you need it the most.

To conclude: MAXIMIZE YOUR INCOME POTENTIAL FIRST - then investing will also come naturally because you will maximize that.

Of course, if you want to focus on your income and spend maximally 30 minutes on your investing per week, you can just take the research from my Research Platform. I think that 99% of the population will benefit from focusing on income than on investing.

Now, how to double your income?

I assume most people are static when it comes to their life: job, house, kids, spouse etc...

But in that static mode, the first step in doubling your income is to start thinking about doubling your income. I think people underestimate the power of our brains and how it actually works. I love the red car analogy, where if I ask you how many red cars have you seen lately, you will not be able to tell me, but you will certainly see many red cars now that I asked you about it. The same thing holds for money, income and investing. If you focus on those things, or just think about how to improve there, your mind will find ways. Ways are always out there.

For me, this is pretty simple, I have to focus on making my Research Platform the best product it can be, that will make customers happy and stick to it, adding a few customers here or there, will compound immensely over time.

STEP 3 - HOW TO GET TO GOOD INVESTING RETURNS!

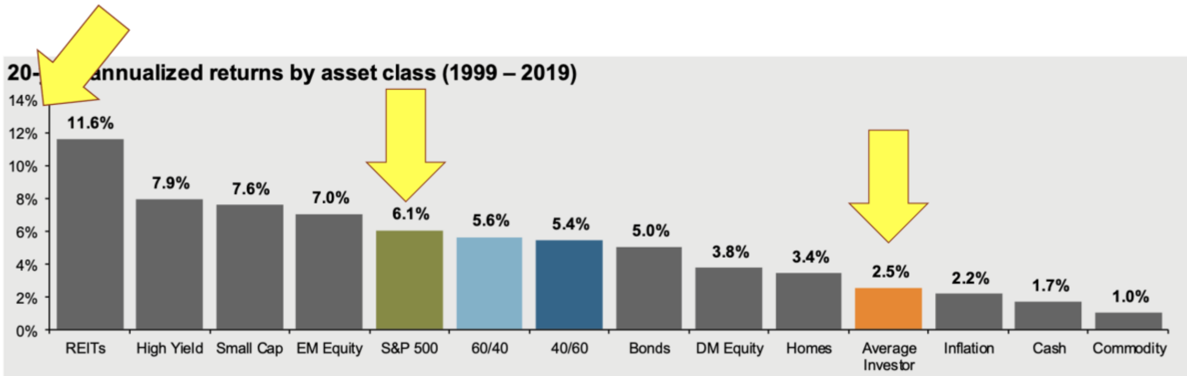
Video version: [How to get to 10% per year in 5 steps]

After we discussed the why of investing and you have invested the maximum into yourself, it is time to discuss the fundamentals of good investing because if investing is not good, it gets ugly. Here are the 5 steps to think about when it comes to good investing!

- **INVERT, ALWAYS INVERT**
- **MARKETS ARE IRRATIONAL**
- **THINK OPPORTUNISTICALLY**
- **AVOID RISK**
- **ACCEPT VOLATILITY - PRICE vs. VALUE**

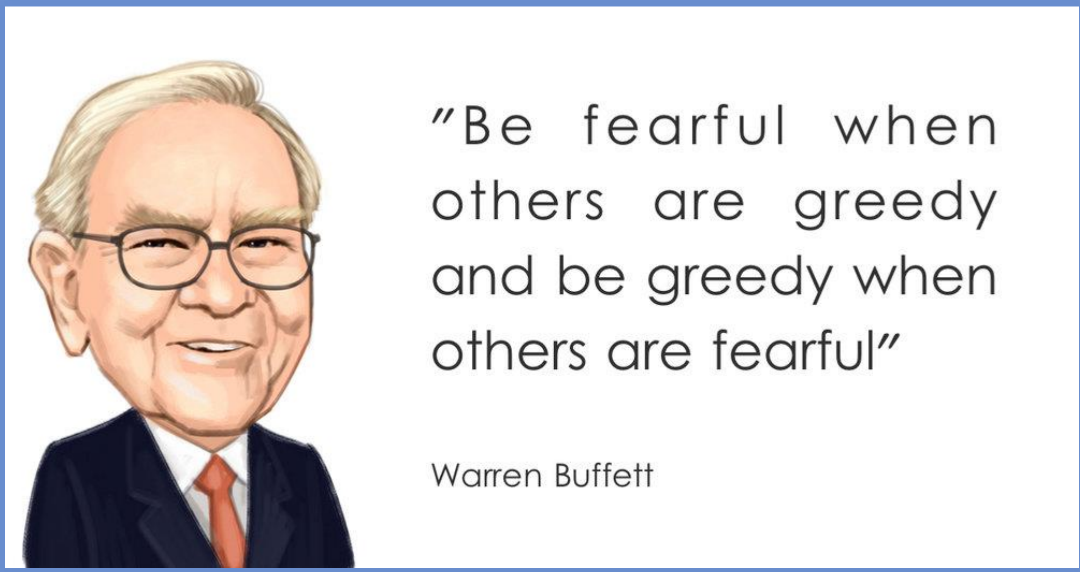
1) Invert, always invert

One of Charlie Munger's most famous quotes is to always invert! The following figure shows the market's return between 1999 and 2019 and compares it to what the average investor did over the same period.

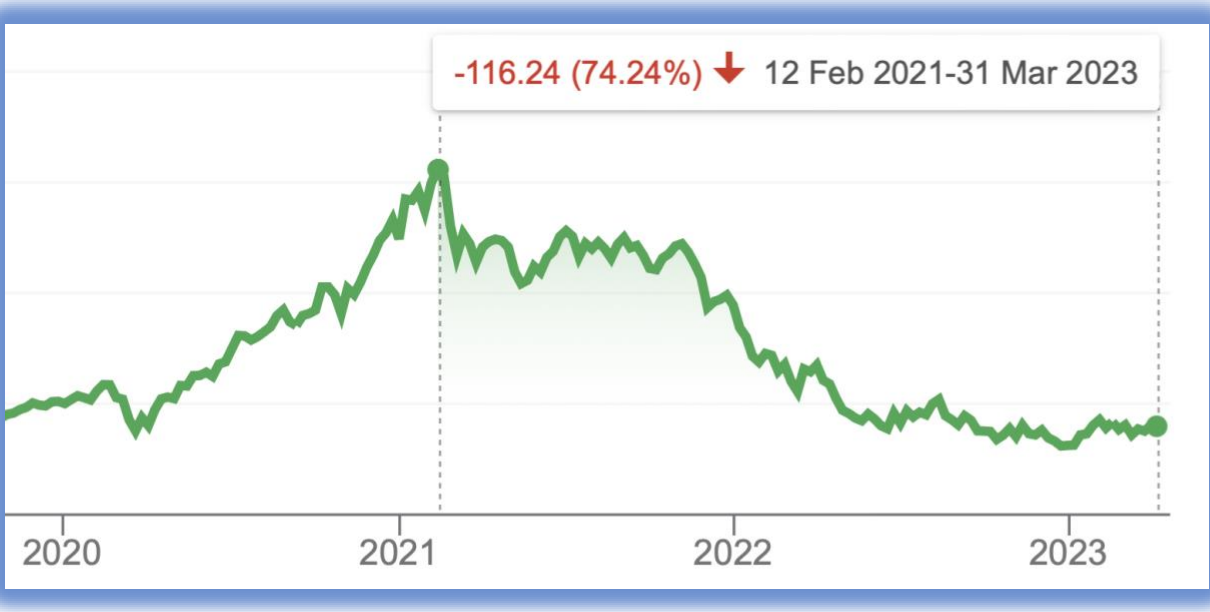


Source: JPM 2020 Guide to Markets

If you want to beat the market, you have to do the opposite of what the average investor does. How to do the opposite? Well, we have to be greedy when others are fearful and vice-versa.



We must avoid buying hyped stocks, no matter how promising those might be. Keep in mind that if you make 100x on one stock, if you then lose it all on the next hyped stocks, you end up with zero after all. A great example of hype where I know many that invested in it is ARKK. Cathy Wood was discussed as the next Warren Buffet in January of 2021 because of her stellar performance during 2020. Unfortunately, the hype didn't last long.



ARK stock performance

As this is a stock market for beginners or better to say value investors, I don't think I need to focus much on things like using margin, going short, betting on options but it is good to mention it. Anything that looks like a bet, is something to avoid.

What is an investing bet? I would define a bet as whenever there is something that will change the world, a promise, or 'this time its different'. A great example are marijuana stocks during the 2019 craze. Many forget how that ended.

So, just by avoiding doing stupid things, you should be able to compound over time and accumulate wealth. That is the first thing to do, actually to avoid. As Munger says:

AVOID AIDS SITUATIONS in life and you will do well!!!!

2) Markets Are Irrational

The second step in the good investing process is believing that the market is irrational. Markets being rational means that at any point in time the stock is fairly priced given the risk and reward. I simply don't buy that because I don't see the risk and reward changing as much as stock prices change.

For example, in less than a year, META stock went from $230, to below $100 only to return to $230. Except for META's management saying different things on their conference call, nothing fundamentally changed with the business. So, I would simply argue markets aren't rational.

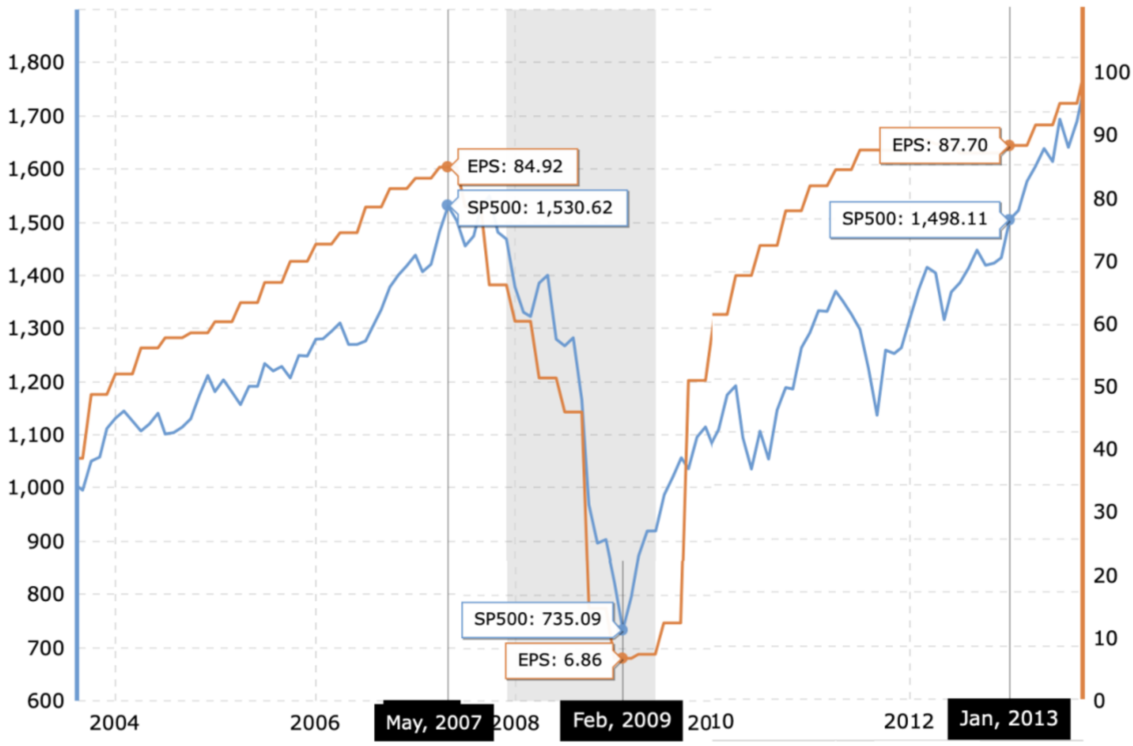
Secondly, markets are made by people, if we are rational beings....

I REST MY CASE!

Now, the two most common behavioral fallacies to take advantage off are PANIC & EXUBERANCE.

For us value investors, it is much easier to take advantage of times of panic as we then can simply buy on the cheap. Exuberant times are simply to be avoided so we don't lose money.

The easiest way to know when others are panicking is to look at the fundamentals and compare it to the stock price. The market is usually focused on current earnings but if you just look at long-term earnings, that will most likely be reached again sometimes in the future, you can differentiate between real value and an oversold situation. The following chart will explain the situation perfectly.



S&P 500 earnings in 2007 were 84 per S&P 500 share and the S&P 500 share level was at 1,530 points. Then the financial crisis came, and people panicked but that means they assumed earnings would never return to previous levels. They sold and the stock market crashed 50%. Of course, it is difficult to think rationally when that happens, but at a level of 735 for the S&P 500 you were buying the best businesses in the world at a PE ratio of 8,75 if we use 2007 earnings. That is value!

Of course, by 2013 both the earnings and the S&P 500 returned to previous levels and those that bought more in 2009 enjoyed a 100% return on that investment.

What was the alternative? Well, for the world as we know it to end. If that happens, the last thing on your mind will be your money or your portfolio!

3) Think Opportunistically

For even better investment returns, one needs to think opportunistically. This follows into the above two steps where you simply have to believe the market will give you better opportunities if there isn't anything at the moment. That is why patience is key and very often you just do nothing which is something extremely hard as we are trained in school to always do and look for solutions. Well, with investing, it is mostly about doing nothing, even for years.

The key to patience is to focus on the fundamentals. Perhaps the easiest way to do that is to ask the following question:

IF THE STOCK MARKET CLOSES TOMORROW, WILL I BE WELL REWARDED FROM THIS INVESTMENT?

By imagining that there is not a stock to trade anymore, you focus on the investment itself and only the rewards it might offer you. This is what is called 'owning a business'. Allowing yourself to forget about stock prices is the only way to be a real investor and focus on the things that matter. Being a business owner is also the topic of our next step in the process of becoming a great investor.

STEP 4 - BEING A BUSINESS OWNER!

Owning businesses is what makes you wealthy over time, watching stock prices will make you poor!

If you can comprehend the above statement, we have already solved 95% of investing issues that affect people and make them lose money over time. Looking at your portfolio as a business owner makes all the difference because by having the right focus, you miss out on all the risky things out there and stick on the way of compounding.

I am continuing to use ARK Investments as an example of what not to do because it is such a recent thing, and many lost a lot of money there. However, it is a lesson of incredible value and learning from it will save many a lot of money in the next crazy boom.

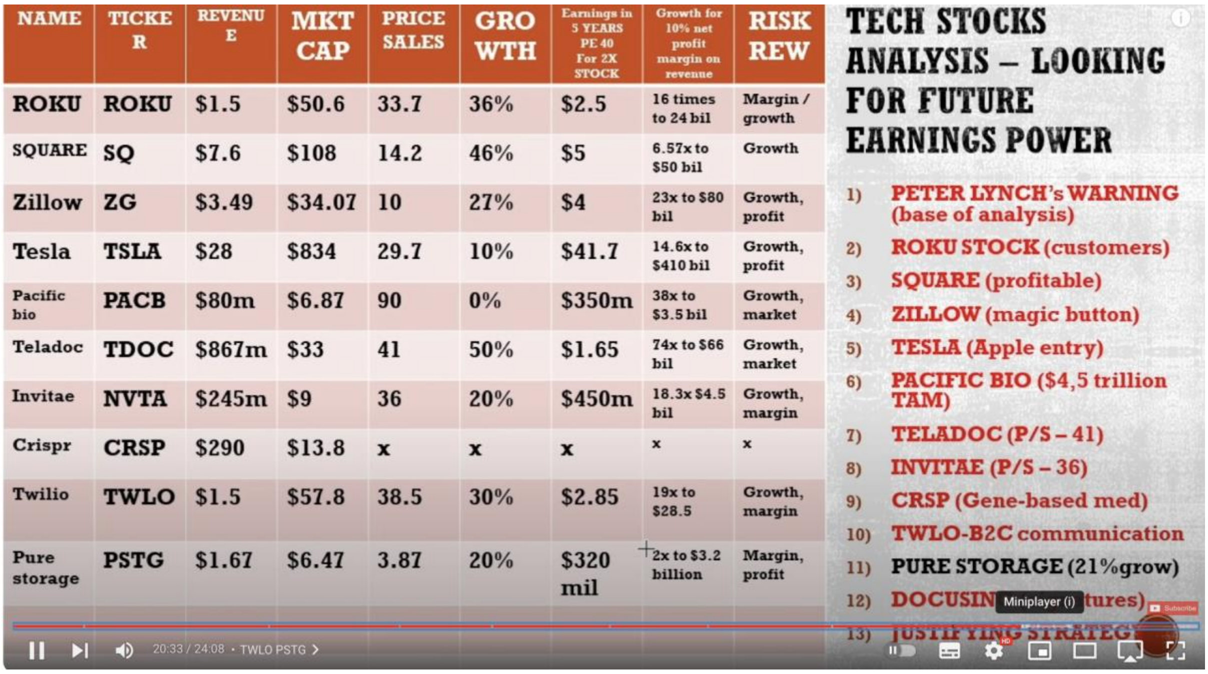
In January 2021 I had analyzed most of the hottest stocks at that moment:

10 Best Growth Stocks Analyzed (Dot-com Bubble or ...

YouTube · Value Investing with Sven Carlin, Ph.D.
12 Jan 2021

[(YouTube Video)]

I looked at those companies and looked at their fundamentals compared to the price people were paying for the stock. The situation was totally crazy, and people were happy paying 30, 40, even 90 times sales for companies making no money.



NAME	TICKER	REVENUE	MKT CAP	PRICE SALES	GROWTH	Earnings in 5 YEARS PE 40 For 2X STOCK	Growth for 10% net profit margin on revenue	RISK REW
ROKU	ROKU	$1.5	$50.6	33.7	36%	$2.5	16 times to 24 bil	Margin / growth
SQUARE	SQ	$7.6	$108	14.2	46%	$5	6.57x to $50 bil	Growth
Zillow	ZG	$3.49	$34.07	10	27%	$4	23x to $80 bil	Growth, profit
Tesla	TSLA	$28	$834	29.7	10%	$41.7	14.6x to $410 bil	Growth, profit
Pacific bio	PACB	$80m	$6.87	90	0%	$350m	38x to $3.5 bil	Growth, market
Teladoc	TDOC	$867m	$33	41	50%	$1.65	74x to $66 bil	Growth, market
Invitae	NVTA	$245m	$9	36	20%	$450m	18.3x $4.5 bil	Growth, margin
Crispr	CRSP	$290	$13.8	x	x	x	x	x
Twilio	TWLO	$1.5	$57.8	38.5	30%	$2.85	19x to $28.5	Growth, margin
Pure storage	PSTG	$1.67	$6.47	3.87	20%	$320 mil	2x to $3.2 billion	Margin, profit

Of course, returns were terrible for investors above and the main reason for that is that they didn't think as business owners, their rationale was completely blinded by the greed of watching their stock prices go up!

Most of the above stocks had huge runs up till February 2021 and investor believed the story will continue forever. As Peter Lynch says in his book, the higher the stock price goes, the crazier the story of why it will go even higher gets.

Since then, all those stocks have returned to pre boom levels or lower, but what is important here, what is the main lesson and one I think will surprise you, is the following:

What makes you rich over time, is not the stock that goes up 10x, but is the business you have bought at a fair price, that constantly delivers value to you over time through dividends and growth! The key from the above chart isn't that people were crazy, the key to grasp is that you can't predict where will stock prices go, the only think we can do is to know the business and at what price we can be sure it will add value to our portfolios and financial lives.

Now that we have discussed what not to do, i.e. watch stock prices, let's discuss what does it mean to own a business.

What does owning a business mean?

The best definition of investing as a business owner is the following:

'If You Can Part With Your Money And Be Happy With What The Business Is Offering In Return, No Matter What The Stock Does, The You Are A Business Owner'

The best example I have for this is Warren Buffett's purchase of Coca Cola in 1988/1989. In 1988 Buffett bought 14,172,500 shares of Coca-Cola for a total of $592 million or $41.8 per average share.

Shares	*Company*	*Cost*	*Market*
		(000s omitted)	
3,000,000	Capital Cities/ABC, Inc.	$517,500	$1,086,750
14,172,500	The Coca-Cola Company	592,540	632,448
2,400,000	Federal Home Loan Mortgage Corporation Preferred*	71,729	121,200
6,850,000	GEICO Corporation	45,713	849,400
1,727,765	The Washington Post Company	9,731	364,126

BRK's 1988 Stock Market Portfolio - Source: BRK

In 1989 Buffett added to his position by buying another 9,177,500 shares for $55.18 per share.

Shares	*Company*	*12/31/89 Cost*	*Market*
		(000s omitted)	
3,000,000	Capital Cities/ABC, Inc.	$ 517,500	$1,692,375
23,350,000	The Coca-Cola Co.	1,023,920	1,803,787
2,400,000	Federal Home Loan Mortgage Corp.	71,729	161,100
6,850,000	GEICO Corp.	45,713	1,044,625
1,727,765	The Washington Post Company	9,731	486,366

This list of companies is the same as last year's and in only one case has the number of shares changed: Our holdings of Coca-Cola increased from 14,172,500 shares at the end of 1988 to 23,350,000.

This Coca-Cola investment provides yet another example of the incredible speed with which your Chairman responds to investment opportunities, no matter how obscure or well-disguised they may be. I believe I had my first Coca-Cola in either 1935 or 1936. Of a certainty, it was in 1936 that I started buying Cokes at the rate of six for 25 cents from Buffett & Son, the family grocery store, to sell around the neighborhood for 5 cents each. In this excursion into high-margin retailing, I duly observed the extraordinary consumer attractiveness and commercial possibilities of the product.

BRK Portfolio end 1989 - Source: BRK

You can see above the Coca-Cola position end of 1989 but also read the first paragraph below the table of stock holdings. Buffett didn't change anything in his portfolio except for adding 50% to his Coca-Cola position at much higher prices than what he first paid for in 1988.

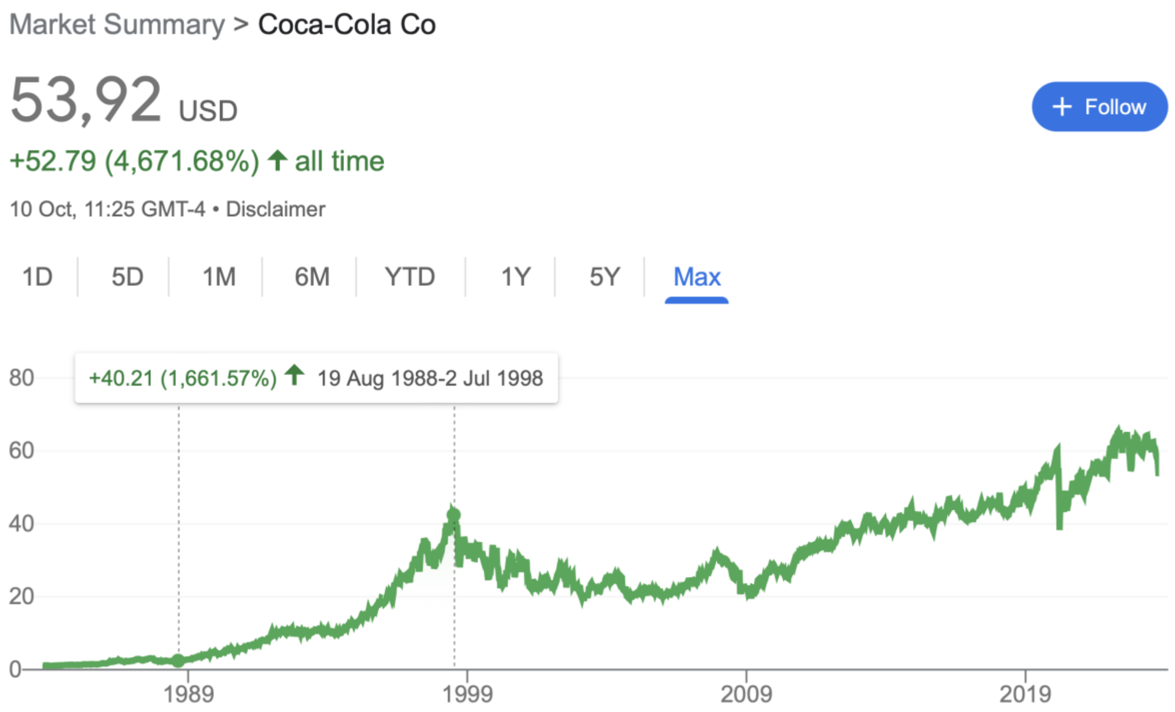
And, more importantly, if you look at the cost price Buffett paid for his Coca-Cola position, he invested $1 billion in it, which is almost double what he invested in all his other positions.

Now, why did Buffett do that and why is that a business owner type of investment?

First, he must had liked the price at what this strong brand was trading at, he liked the global growth it was offering, and he liked it at that specific price. If you look at the Coca-Cola dividend chart below, the yield wasn't spectacular at 2.84%, but Warren saw the growth potential of that dividend and he knew what it would lead to over time.

KO dividend chart (prices adjusted for stock splits over time) - Source: [Macrotrends]

The dividend went from $0.03 cents (adjusted for stock splits) to the current $1.8 and that is all what Warren cared about. This is emphasized by the fact that Buffett didn't sell the position after it was up more than 1,661% in 1998. The stock reached a level above $40 in 1998 and given that it is now at $54, it didn't do much since.



Of course, it would had been smarter for Buffett to sell Coca-Cola in 1998 or whenever since and invest in any other business idea he had. Just think of Buffett's Apple investment done in 2016 that is now 6 times what Warren paid for it while Coca-Cola is at similar levels to what it was in 2016.

But this is the key here; once you start buying and selling a stock from a perspective what a stock does, you are not a business owner anymore but just a stock gambler. Similarly to what the situation with Apple is now, Buffett isn't selling because he feels and thinks like a business owner. Not caring about what the stock price does, but caring only about what the business does, is the key for long-term investing success.

As an owner investor, you don't get excited when your stock is up 10 times because you are happy with what the business is offering you. And you also don't get into panic if the stock of the business you own goes down 50% or more, as long as the business is still doing what you bought it for.

You might be thinking: "Sven, Coca Cola was up 16 times, Buffett should had sold, this is crazy". And yes, it sounds crazy that Buffett could have bought his own BRK with the money he would had got from selling Coca Cola in 1998 and made almost 10 times his money while Coca Cola stock did nothing.

However, as soon as Buffett would start thinking in the lines of what the stock price is doing, he wouldn't be Buffett anymore.

I know this is hard to comprehend, but I think we as mere mortals should focus on buying a piece of a business when we invest into something and not a stock. Only the owning mentality can give you the necessary calm to weather investing storms. As you will see in the next chapter, businesses are much more stable than the stock market - another key factor to understand when it comes to investing!

STEP 5 - UNDERSTANDING WHAT TO EXPECT FROM MARKETS/INVESTING - VOLATILITY

The mantra surrounding investing is that stocks have historically went up 10% per year and that all you have to do is invest and forget about it. Unfortunately, that is only partially true.

The investing reality is that there are good and there are bad times. But the good news is that over a life cycle, you can be well rewarded by investing in stocks if you stick to the plan, especially during bad times.

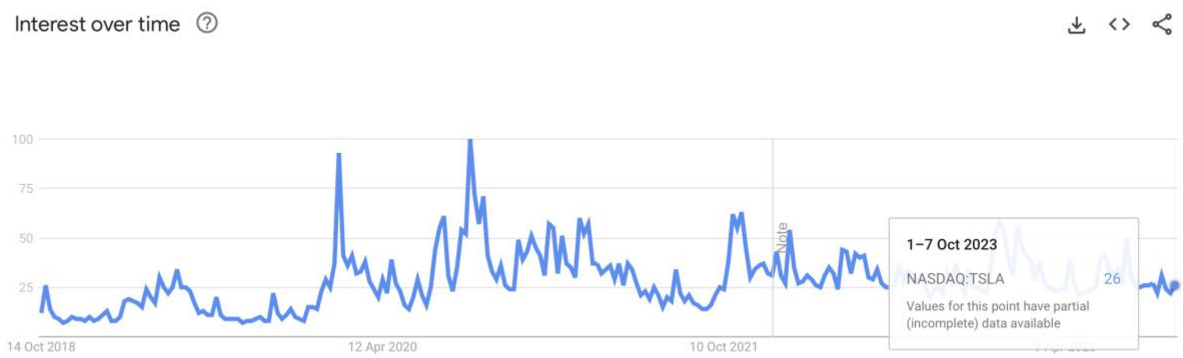
One of my favorite charts when it comes to investing is the following chart Monish Pabrai shared in one of his lectures.

Dow historical chart - Source: [Mohnish Pabrai speech atTrinity College, Dublin]

Yes, stocks have on average returned 9 to 10% per year over the last 100 years or so (be careful, only US stocks, European markets didn't even come close). However, even in the US, there have been periods where stocks returned zero for very long periods of time like 22 years from 1898 to 1920, 25 years from 1929 to 1954, 17 years from 1965 to 1982 and more recently, 12 years from 2000 to 2012. During those negative periods there have also been crashes of 86% like in the 1929 to 1932 period or 50% like after the 2000 dot-com bubble and during the financial crisis in 2009.

One of the few guarantees I can give you when it comes to investing is that bad times will come again. Many forecast that we are in such a bad period now as due to the high valuations reached in the post pandemic stock bubble in 2021, it is unlikely that investors get good returns over the next 5 to 10 years. Those predictions are proving themselves right given that the stock market went nowhere for the last 2 years.

The sad truth is that as soon as stocks stop going up, people start losing interest in those. Suddenly investing isn't as exciting anymore, it is hard to make money, many have actually lost money like we have discussed previously with the ARK Investing debacle, and consequently interest fades. For example, the current interest level for Tesla stock on Google trends is at 26% of what it was when at the peak of the pandemic stock mania.



In one of his books, Ray Dalio mentions how each investment asset class will likely crash 70% or more once in our lifetime. This means that you have to expect that your stocks, bonds, or whatever you are investing in, could crash 70% at some point in time. You don't believe it?

Well, the Nasdaq index crashed 75% at the beginning of this century.

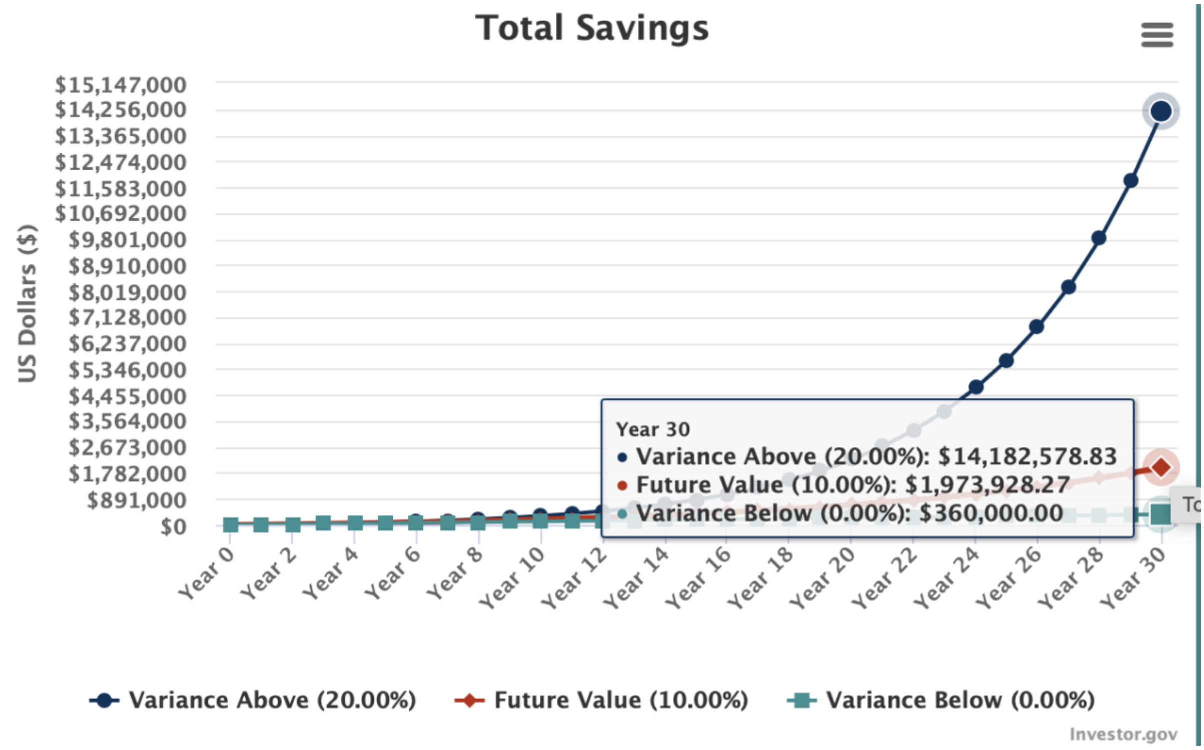
The S&P 500 crashed 50% between 2007 and 2009.

Not to mention individual stocks, even big and stable companies like 3M can see their stock crash more than 60%.

The current market darling, Nvidia, crashed 65% from November 2021 to October 2022, only to rebound even higher. But, there is nothing preventing it to crash again.

The message here is that an investor's focus must be on owning businesses and accumulating those businesses over time. The key here is accumulation and that can only be achieved if one is ready for the market's volatility and happy when prices are down. **One key rule when it comes to investing is stocks is to never invest the money you might need.** However, many are investing in stocks to build up their pension, which is ok if you think of your pension as income from the dividends the businesses you own will bring. But, if you think that every dollar you put into the stock market will grow at 10% annually and that in 20 years you will have 2 million where you will easily sell part of your portfolio for living expenses, you could be in for a nasty surprise if the market doesn't work with you. And trust me, the market won't always work with you.

For example, if one invests $1,000 per month in stocks, there could be different outcomes over 30 years. It is possible to achieve 10% returns per year and reach a portfolio of $2 million, but it is also possible that due to crashes, recessions or individual investing mistakes, the portfolio is only at $360 thousand which would be a huge difference for one's retirement plans.



Now, don't worry and don't be scared. If you invest in stocks for wealth accumulation, you are happy when stocks crash. Remember the previous step we discussed, investing is not about seeing your stocks go up, investing is about owning more and more businesses that will create long-term wealth for you. Plus, it is easier to do that during bad times than good times.

Actually, you should be happy when stocks go down and get more excited about investing because for less money, you can buy more of the nice businesses in your portfolio.

Apart from owning businesses, another key investing factor for Warren Buffett is to see stocks going down as good news! This is totally counterintuitive, but essential to understand and invest over cycles.

Now, think as a business owner, what makes it easier to own more of a company like Berkshire, when the stock goes up all the time or when the stock goes down or is flat?

Let's assume you are working and investing on a monthly basis. What is the best situation for you to accumulate more wealth through owning businesses? May 2020 or now, October 2022?

With $1,000 today, you can buy almost 3 shares of Berkshire while in 2020 you could had bought 5.6 shares of the same business. Yes, if you invested in 2020 your money doubled by now, you might feel smart and proud, but if you add money to your portfolio over your work life cycle, you might wish for stocks to stay forever down.

To deepen the discussion, the same holds even for those that are not adding new money to their portfolios but only reinvesting their dividends. Imagine investing in the S&P 500 now, the dividend yield is a miserable 1.5% while if the S&P 500 would be at the same level as it was in 2009, the dividend yield would now be 8% and you could reinvest your money into something yielding 8%.

To reiterate, if you reinvest your S&P 500 dividend, you increase your business ownership by 1.5%, if the S&P 500 index would be much lower, you would increase your business ownership by a higher percentage. Therefore, as Buffett says, real investors hope for lower prices, accumulate businesses and then enjoy those returns.

It all sounds simple, but is one of the hardest things for us to understand. It is better for you when stocks go down, despite all the excitement that happens when stocks go up. The thing is that stocks will go down or do nothing for longer periods of time, which is a benefit for the patient investor looking to accumulate businesses. To conclude, accumulate, buy on discount, accept booms and busts, reinvest and over time, you should do very well.

STEP 6 - WHERE TO INVEST MY FIRST $1,000 or $100?

This is a guide about investing in stocks, but before doing that, it is important to know also the other options one has, that might be even better than stocks for the individual:

- A course to get a skill that will make you tens of thousands per year, after you have maximized investing in yourself as we discussed in Step 2, then we can go to the next ideas:

- Check for pension accounts that are not taxed (IRA), maybe even matched by the employer (401k)

- If you have any loan that has a higher interest rate on it like a credit card or student loan, pay that one down as it is the safest return.

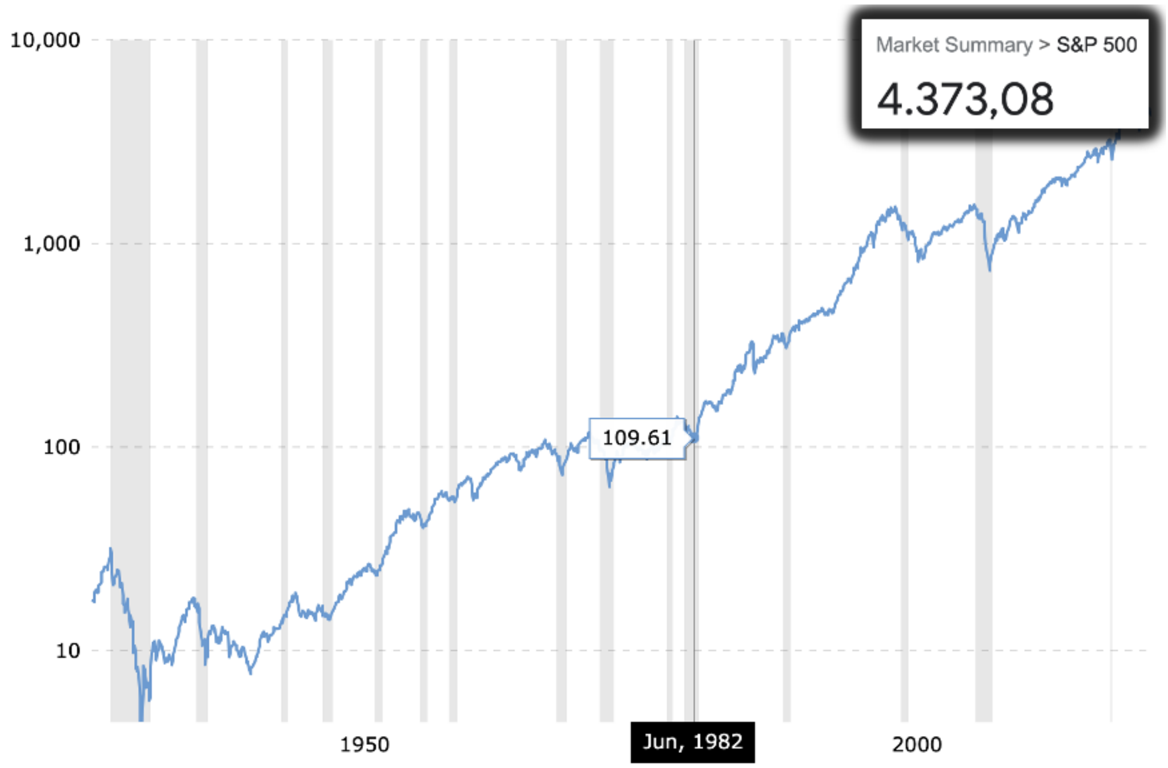
- Think about a down payment for a mortgage as mortgages are made to work for you over time and can be one of the best wealth accumulation vehicles in your life: inflation will possibly increase the value of your home, you will likely pay less in mortgage payments than rent and if you have a low fixed interest rate, the mortgage payment will be less and less of your income over time. Fast forward 30 years, you'll own your home that will most likely have also increased in value in line with inflation.

- Check for other options because as we discussed already, investing in stocks is about the money you don't need.

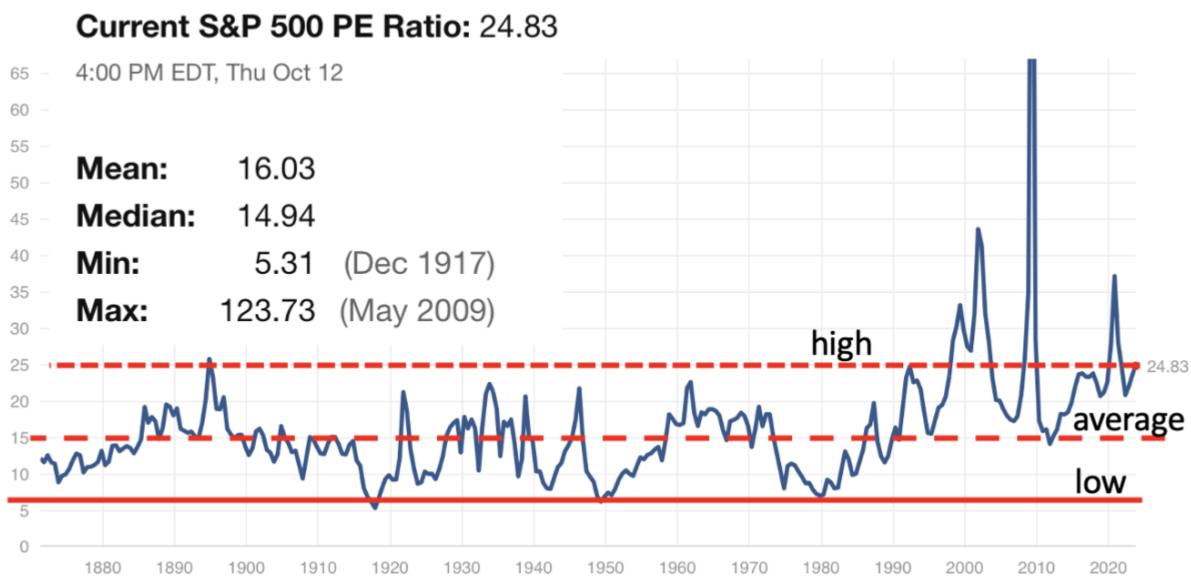
Investing $1,000 in stocks or bonds

Whatever you do in life, it is best to have a plan about it. When it comes to investing your first money, I believe the most important thing is making a habit out of it with a clear plan to accumulate wealth. Investing for wealth accumulation means to invest in something that is going to be worth more and more over time, not less. This is the essence of value investing, i.e. not having less, thus not losing money. If you don't lose money, the only alternative is to make and thus have more wealth over time.

As we discussed in Step 5, there are good and bad times to invest in stocks. From 1982 to 2021, went up about 40 times, even more including dividends.



Not only did it follow economic growth, but also the price to earnings ratio of the index, i.e. American businesses went from 7 to 25. Thus, investing now is investing when stocks are historically on the very expensive side.



Source: [Multpl](), annotation in red by author

This doesn't mean the S&P 500 or stocks in general will be a bad investment going forward, the above only says that investing in stocks is risky now and volatile times could be ahead.

Now, the S&P 500 is always a good investment as it is a collection of the world's best businesses. Nothing wrong with investing in it, but the key then is that if it goes down, you invest more, that is it. Over time, it is most likely a very good vehicle for wealth accumulation.

Apart from investing in stocks and if there is a crash or something, investing more, there is also a much more stable solution which is to invest in government bonds or high yield savings accounts that practically do that for you. US Treasuries yield somewhere around 5% which is not a bad return given that there is no downside risk, except for inflation.

Treasury Yields

NAME	COUPON	PRICE	YIELD
GB3:GOV **3 Month**	0.00	5.32	5.47%
GB6:GOV **6 Month**	0.00	5.31	5.54%
GB12:GOV **12 Month**	0.00	5.10	5.39%
GT2:GOV **2 Year**	5.00	99.93	5.04%
GT5:GOV **5 Year**	4.63	99.86	4.66%
GT10:GOV **10 Year**	3.88	93.86	4.66%
GT30:GOV **30 Year**	4.13	89.09	4.82%

Treasury yields: Source: Bloomberg

Things in Europe aren't bad either, but not as good as in the US.

Bund Yields

NAME	COUPON	PRICE	YIELD
GTDEM2Y:GOV **Germany Bund 2 Year Yield**	3.10	99.93	3.12%
GTDEM5Y:GOV **Germany Bund 5 Year Yield**	2.40	98.66	2.68%
GTDEM10Y:GOV **Germany Bund 10 Year Yield**	2.60	98.62	2.76%
GTDEM30Y:GOV **Germany Bund 30 Year Yield**	1.80	77.23	2.96%

The key here is that we didn't have this option to be compensated for waiting in the 2010s as interest rates were very low. Things have changed and waiting also doesn't seem a bad option. Even Ray Dalio, that was saying cash is trash up till 2021 changed his mind on it:

The Thinking Behind Why Cash Is Now Good (and not Trash)

Ray Dalio
Founder, CIO Mentor, and Member of the Bridgewater Board

197 articles ✓ Following

September 29, 2023

My comments over the last couple of months that “cash is good”— which was opposite to my comment made in early 2020 that “cash is trash” — got a lot of attention prompting some people to want to know why I changed my mind.

To be clear, what I tried to convey both times is how attractive cash is based on the interest rates offered at those times. The rates were “trashy” (less than 1 percent) back in 2020 and “pretty good” (around 5 1/2 percent) recently.

Sometimes cash is good and sometimes cash is bad. This is based on a number of measures I use and want to pass along so I can help you “fish” rather than give you a “fish” (i.e., a conclusion without the reasoning that led to it). I will share a

Source: [Ray Dalio (Linkedin)]

Dalio discusses how "sometimes cash is good and sometimes cash is bad" which is correct, but that holds for all asset classes and investments too. It all depends on the price you are paying and on the return you are getting on your investments. And this is actually the core of this 'where to invest your first $1,000' discussion.

Defining Your Investment Strategy With Your First $1,000 (Active vs. Passive)

Nobody knows what will happen to the first $1,000 you invest because markets are unpredictable. But, what is not predictable is the investing strategy you set for yourself and your life. This is far more important than any kind of return you might get from your $1,000.

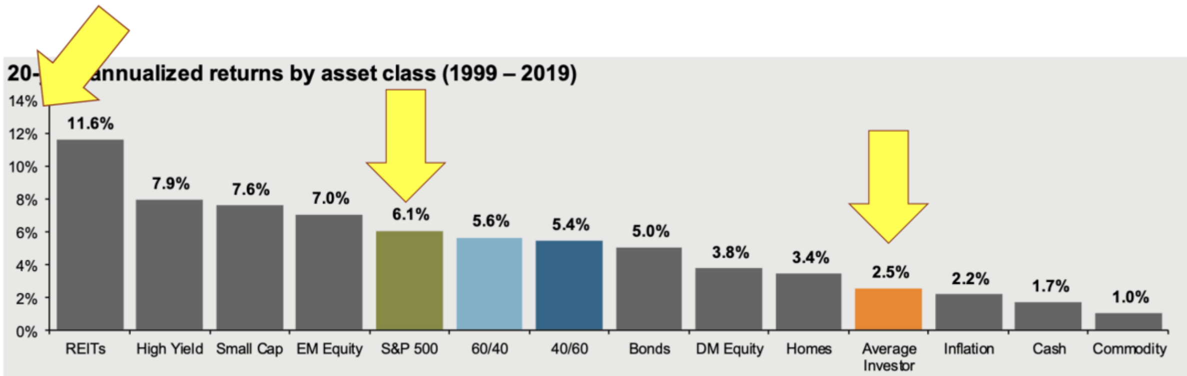
My personal opinion is that one has to think about one's investing opportunities because exactly that 'thinking' process is the most important thing and will deliver the most value over your investing life cycle.

So, you have two options, thinking about your investing and money, we can call it active investing and the second option is not thinking, we can call it passive even if I would argue there is no such thing as passive investing. Let me start with passive investing.

Passive Investing Option

The passive investing option is a set it and forget it option and in theory not a bad one. However, very few stick to it over a decade or two, even three, which is the minimum necessary to be certain that you will reap the benefits of such a strategy. As we discussed in Step 5, markets are fickle and not always favorable to you. Thus, when things go bad for 5 years, very few investors have the stamina and conviction to just remain passive investors and keep forgetting about it.

The thing is that if you don't think, you don't know, thus when things go bad, you don't know whether that is just a temporary issue or there is something fundamental going on. As we have already discussed, most investors panic in bad times and sell and buy too much in good times ending up with very bad returns. The period between 1999 and 2019 is an excellent example of that because stocks did well, but with two crashes of 50% in between, few investors did well.



Source: JPM 2020 Guide to Markets

I am personally not a passive investor, so you have to see how it suits you but if you decide to be a passive investor, please promise yourself that you'll do the most important thing: when things turn ugly, invest more!

The Added Value Of Active Investing

My opinion is that active investing is not about searching for the best opportunity in the market now! That is crazy as there are more than 50,000 securities traded globally. Active investing is about learning what is good for you and what isn't at a specific moment in time.

I have been investing since 2002 and the core of it is that I have been presented with 3 periods of amazing investing opportunities and 3 of not so great. Let me explain:

- 2002 till 2005 was a great time to buy stocks as things were cheap and many things boomed in the 2005 to 2007 period, especially emerging markets where I was investing.

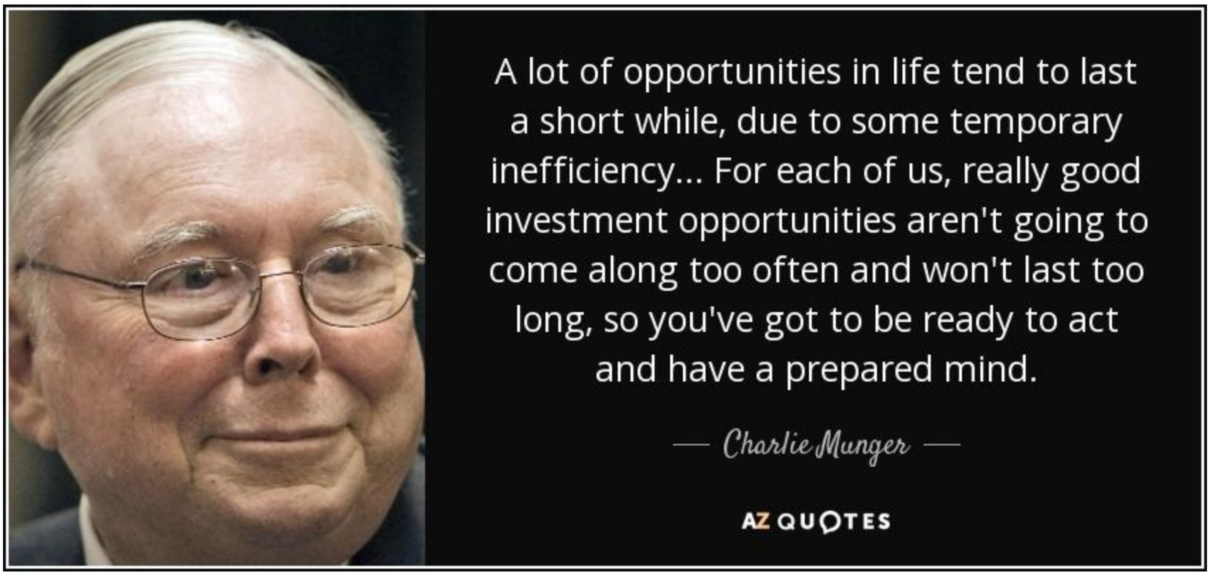
- 2007 till 2008 wasn't a great time as things were pretty expensive and the risk didn't justify the reward. I didn't invest much in that period because I have other things to do with that money where I personally got better returns (my education, travel etc.)

- 2009 till 2020 was another great time for investors, I could push it forward till 2020. The best investment at that time was buying a house with a 30-years fixed low income mortgage. Interest rates were low on mortgages, rents were higher than mortgage payments and if ever there would be inflation ahead, one would win. There were also other investment opportunities like commodities and other...

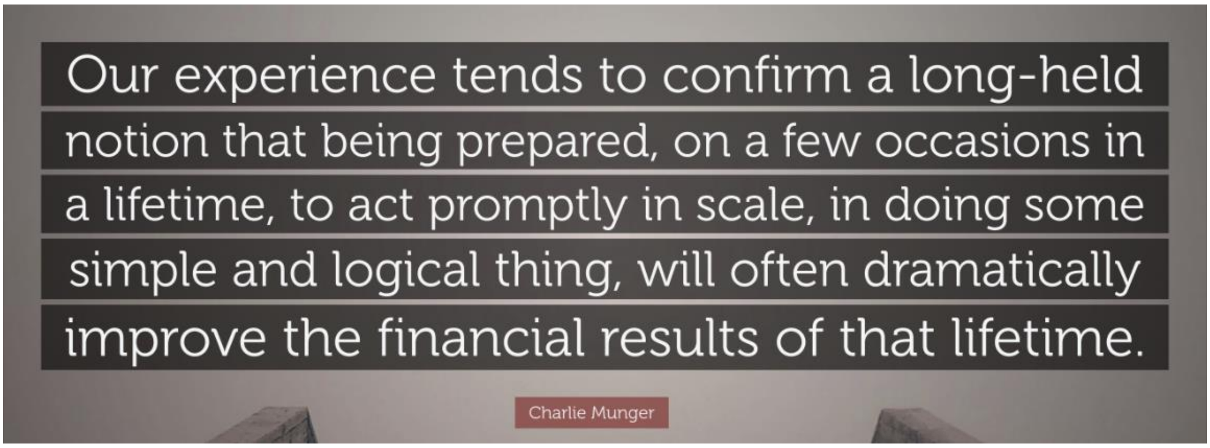
- 2021 onward - stocks are still relatively high as we discussed, cash looks good, but there aren't any easy opportunities on the radar where one would say do it.

And if you as an investor can learn to understand when something is good for you, bad, or when other is better than the other, that gives you the greatest gift investing offers:

TO NAIL THOSE INVESTMENT OPPORTUNITIES THAT ARISE A FEW TIMES IN YOUR LIFE, THAT ARE EASY TO DO, AND DELIVER HUGE RETURNS. AS MUNGER SAYS:



A person that thinks, will know when those opportunities arise and take advantage of them. It is all about being prepared:



And that is it!

The last great opportunity that happened was in 2020, I was buying big and did well! In April of 2020 I was totally invested!

Source: [Stock Market Research Platform]

Now, it is your decision what to do with your $1,000 and the thousands that will came afterwards. Do you want to follow the crowd or think what is best for you?

Of course, I can't tell you what to buy, because I can't know what is best for you!

STEP 7 - KEY INVESTING PROCESS RULES TO STICK TO - IT IS A LIFE LONG PROCESS!!!

To put this all into a process:

1. It all starts with **SPENDING LESS THAN WHAT YOU MAKE**! Without that, you have nothing to invest!

2. Investing **WILL MAKE YOU MORE MONEY THAN WORKING**!

3. Investing is about **MAXIMIZING YOUR FINANCIAL POTENTIAL FIRST - EDUCATION, BUSINESS, INCOME, SPENDING, LOANS**, and only after it all comes investing in stocks!

4. Invert, think first what can go wrong. **THUS, DON'T DO STUPID THINGS!**

5. **MARKETS ARE USUALLY IRRATIONAL**, take advantage of the opportunities given by the crazy market!

6. **DON'T LOSE MONEY**! Don't risk what you have and need for something you don't have but actually don't need!

7. **OWN BUSINESSES**, forget about the stock price if what you bought is value!

8. Expect volatility, thus there **WILL BE GREAT TIMES, BUT ALSO VERY UGLY TIMES!**

9. Invest only the **MONEY YOU WON'T NEED, EVER!**

10. BE HAPPY WHEN STOCKS GO DOWN, EVEN YOUR OWN, YOU CAN BE BUYING AT A DISCOUNT!

11. THE GOAL IS TO ACCUMULATE MORE WEALTH, MORE BUSINESSES AND ENJOY THE REWARD FROM THOSE, NOT SEE YOUR PORTFOLIO NUMBER GO UP! That comes naturally if you do the right things.

12. When putting your money into action, **THINK OF YOUR PLAN FIRST**, then invest accordingly!

13. There is no such think as passive investing, **IT IS ALL ACTIVE IN A CERTAIN DEGREE**!

14. **CASH IS SOMETIMES GOOD** - all investments are sometimes good, sometimes bad!

15. **BE PREPARED WHEN THOSE RARE GREAT OPPORTUNITIES ARISE**, and those will come more often than you might imagine!

What is left it to apply the above principles and find the investments that best suit you! To do that, as it is a process, we will keep learning by example and constantly adding to this free stock market investing course!