How To Make Money Investing in Stocks

Scott A. T.: Broadcasting from One Dallas Tower. Welcome to the Financial Rockstar Show. I'm your host, Scott Alan Turner, ready to help you get out of debt, save more money and retire early. In the studio with me is Producer Katie, who is starting her own website. Details to come. On the show today I'll be answering your questions about money, business and life. If you have a question you would like answered on the show, visit goaskscott.com to leave me a voicemail. “October: This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August and February.” Famous quote from Mark Twain. I'm a bit of a pack-rat with my paperwork primarily because it takes so little space to store.

You throw it in a box, stick it in the closet, attic, wherever. I have all my old tax returns, all my old stock trades, a lot of important pieces of information that I've hung onto over the years. Lo and behold, I have all my old stock picks from back in the day. My buys, my sells, the costs, the dates. Let me tell you about some of the companies I used to invest in. Caterpillar does the big Tonka trucks, the earth movers. Cisco, they run the internet. General Motors, you're familiar with them. Sears. We all know what Sears is. E-Trade. Yeah, you could actually invest in E-Trade. I don't know if you still can or not. Goodyear make tires, and some others I'll share with you in a second.

Here's a buffoon move when I was going back to these. I wish I could go back and ask myself, "What were you thinking?" I bought $3,000 of Home Depot stock on a March 1st. I sold it on March 17th. Then I turned around and bought it again on May 5th and sold all again two years later for total loss of about $800 including the trading fees. That is insane. I have no idea. I do have an idea why I did that. I was essentially day-trading, trying to time the market and thinking I knew what was going to go on with Home Depot. I enjoy this exercise. Excited to go back and I went through each of my stocks. I'm not going to list them all because it was a bunch, and I compared, what would have happened if I had bought those stocks and just held onto them to today if I compare that to what the overall market did? All right.

Let's see a few. Home Depot, and these are all dates from the year 2000. Home Depot then, $64 a share. Today, $131 a share. That sounds pretty good. Caterpillar, $17 a share back then. Today, $71 a share. Also pretty good. How about General Motors, $93 a share. They went bankrupt 2009 so that went to zero. Not so good. How about Sears, $15 a share back then. Today, $11. Cisco, $77 a share back then. Today, $26. That's not good. Yahoo, $85 a share back then. Today, $37. How about human genome sciences? I don't even know what they do. How much do you think I know about the human genome? How much do you know about the human genome? How much does anyone know about the human genome? Unless you have a PhD in genetics, you don't. I have no idea why I would have ever bought this stock. Again, I do know because I was day-trading. I got some paperwork here for a second. The losses I made back then. Home Depot bought $3,000 worth, sold it 2,200. I lost $800 there.

How about Intel, the maker of computer chips. I bought it for $5,500 and sold it for $2,500, nice $3,000 loss there. Brilliant. EMC, my goodness, bought that for $3,000 sold it for $300 so I lost $2,700 there. They were a tech company. Oracle, largest software company in the world behind Microsoft. Again, $3,000 purchased, sold it for $700. Nice $2,300 loss. Cisco, $3,000 bought it for. Sold it for 700. Lost $2,300 there. Yahoo, bought it for $3,000, sold it and netted $374, $2,600 loss there. Nokia, the maker of cellphones, $3,000 sold it, got $700, lost another $2,300. Then here's the funniest one. At a company called MC Data. I have no idea what they did. I owned one share, make sense and based on the commissions of the share I actually netted $-3.75. I plugged some of this data into a spreadsheet and if I just look at Home Depot, Caterpillar, General Motors, Sears, Cisco and Yahoo just the money I put in those.

Actually, I just used a thousand dollars each was the number that I used just for comparison to the overall stock market. If I put a thousand dollars in each of those six companies compared to if I just bought a low cost index fund I would have come out $700 ahead in the index fund just with a $6,000 investment. What about a $100,000 investment? Just those six stocks compared to the overall stock market I would have come out $120,000 more in the index fund. The stocks they grew by 28%. The S&P 500 in that time, grew by 40%. My stocks would have increased in value from a $100,000 to $128,000 while the overall stock market went from a $100,000 to a $140,000, $120,000 difference between the two. Now, I want to share with you something different.

If you pick Amazon's stock in 1999 and held on to it, a $10,000 investment would be worth a $140,000 today, $10,000 became a $140,000 if you had put $10,000 into the S&P 500 in the index fund it would be worth $15,000. Let that sink in for a second. $140,000 in Amazon versus 15 in the S&P 500. The people who picked it right or the people who we'll say guessed it right, if they had Amazon in some type of mutual fund, their numbers are so skewed because of this one pick that you're going to think they are freaking genius. Hey, if I had bought $10,000 in the Amazon in 1999 I would have a boat load of money. I could have 20 other losers like the ones I just mentioned, loser stocks that were flat or didn't grow and I could tell you, "Look at me. I beat the S&P 500 by 50% or a 100%," or whatever it is over the past 15 years.

I wouldn't be selling this idea of boring index funds because I would be a genius. Unless you dug in which you wouldn't do. You just look at my annual rate of return and nothing more. You'd say, "He's got a 15% annual rate return," maybe it's 11% or 12%, 13%, whatever it would be. You'd look at this 15 year track record of being more than the stock market average, more that 10% and you would just give me money with a smile on your face and a dream of beating the market all because I happened to pick one winner way back in 1999 that did it really well and covered up for all of the other bad decisions I made. Do you know what? We can't go back to 1999 and find that winner. We can't. If you get in something today which is doing well because something happened in 1999, you're not going to get those big gains. We dream of beating the market.

It's the same thing I did when I bought all those stocks I knew nothing about. It's the same thing you may have done when you buy into a mutual fund today that you know nothing about. The people who tried to beat the market, beat the 10%, they can show you those impressive returns. All they need to do is just have one Amazon or one Facebook or maybe one Apple that they pick in the right time in that fund to skew the results. If Amazon face plants like Apple has been doing lately, suddenly it comes back to reality. There's a study by a company called Dalbar, they found the average mutual fund investor under-performed the stock market by nearly 5% over the past 20 years. In year 2014 alone, mutual fund investors under-performed the stock market average by 8.19%.

I don't mean if you take a $100 you would have made $95 instead, 5%. We're talking 5% under the market average of 10%. If you invested a $100,000 in just in the stock market, the S&P 500, you made a $110,000. If you're the average mutual fund investor trying to chase returns, trying to pick a winner, you only made a $105,000, that's a $5,000 difference year after year after year after year that money is not going to compound. What about the professionals? There's a new paper out from two researchers at the University of Pennsylvania's Wharton School. Look at Jim Cramer, host of Mad Money on CNBC I think it is. He's a professional. He's a professional. They looked ahead stock picks from August 1st 2001 through March 31st 2016 at his portfolio.

It returned a cumulative 64.5% and that compares to a 126% for the S&P 500 stock index. He's a former hedge fund manager. He's a professional. He under-performed by an average of 2.5% the overall stock market. I'll have a link to that article in the show notes. Sadly, nation, you're listening to a big loser right now. I got most of my picks wrong, Caterpillar, Home Depot. There are a couple of winners that are doing better. All others were big fails. In 2003, again, I got my pack-rat data I was looking at, 2003 when I started getting edumacated. I started my first Roth IRA. I looked out, I was like, "Wow, I did this way back then." What do you think I started with? What do you think I started with?

There it was in front of me, a Vanguard 500 index fund, $1,500 is what I contributed that year. The academic research shows some people get lucky and they get it right some of the time. Nobody gets it right consistently over a long period of time. Even the Oracle of Omaha, Warren Buffett pick most of his winners in the 1970's when he was in his 20's. Dude is 85 now. His money has been compounding for 65 years. That's one of the reasons he's a billionaire. He lives in a cheap house and drives cheap cars. He's picked a bunch of losers too. How do you make money investing in stocks? By investing in low cost stock index funds which buy a wide array of stocks. How do you keep from losing money by investing in stocks? By investing in low cost stock index funds which buy a wide array of stocks. On to your questions.

Kyle from Omaha, Nebraska asks if he can continue to ignore calls from collectors. Says,

Kyle: "I've been getting calls from collectors for a while now and I'm unsure of the best way to respond or if I should even bother to do so. I've never actually talked to these people. I only know who they are because I've Googled the phone number. My issue is that I don't owe anybody anything and I pay all my bills. My credit score is 800 plus. I suspect this could possibly be an issue with my ex-wife but she's supposed to pay her all debts per the divorce decree. I know she's had a history of not paying her bills. In your opinion could I continue to ignore these collectors?

I asked because if it's so serious I'd expect something to come in the mail like a late notice or even a bill for that matter or at least these people would leave a message stating what the bill is. I don't want to buy myself some trouble by taking a call from these collectors and accidentally saying something stupid or incorrect. From what I hear, these guys are bunch of jack wagons."

Scott A. T.: That's my word. We had to clean it up because it's a family-friendly show. My first step would be to get a free copy of your credit report. You probably already done this because you know your credit score but free copy of your credit report at annualcreditreport.com. Just make sure you don't have any debts or accounts that you don't know about.

I'm not saying your ex-wife would have done this but there are certainly some seedy individuals out there who open accounts in the name of a family member or a former spouse and then they go on a shopping spree. You guys want to put a credit freeze on your account just in case which everyone should have anyway. Let's say your account is clean. You can't find anything you owe which is again probably the case because you got an 800 credit score but let's check just in case. Your next step is to send the collection agency a drop dead letter. You have to answer the phone, ask for the account number and get a mailing address for these guys. Don't engage in the conversation. You just have to be repetitive if you have to to the point of being annoying.

Get them on the phone, blah, blah, blah, you say, "What is the account number, sir? What is the account number, sir? What is the account number, sir? What is the account number, sir?" Once you get that you got to get on to who you got to contact, "What is your mailing address?" You get the address or get the point. Those two things that’s all you need. You need an account number that they’re referring to and their mailing address so that you can contact them. You do have to watch what you say as you mentioned. Both parties on the phone have to consent to a phone recording if you live in California, Connecticut, Florida, Hawaii, Maryland, Massachusetts, Montana, New Hampshire, Pennsylvania and Washington but here in Texas I can record a phone conversation without the other person's permission.

In the show notes and I'm going to send you a link to is a document I have on my website it's how to send a drop dead letter to a collection agency. It's a quick letter, it walks you through the steps in order to do that to get them to leave you alone and they have to leave you alone according to the Fair Debt Collection Practices Act. You send them a drop dead letter, according to the act they can't keep bothering you. Now, what may happen is they sell the debt later on to someone else and then that someone else starts bothering you so then you have to go to the process again. If you get sick of the calls, I get calls from Google all the time they want to sell me advertising every week, it's the AdWords stuff, just block the number.

If they're calling on your cellphone just block it, easy to do on a cellphone. If you have a home phone it might be a little bit different how you can block numbers, it probably depends on your service and what you're using there. If you get a home phone, why, in this day and age why would you have a home phone? Not sure but anyway different subject. There are a lot of jack wagons out there, it's a pain. I'm sorry, you got to deal with this. You could ignore it if you're 100% sure the debts aren't yours but I probably opt to send them a drop dead letter just to stop the phones from ringing. Thanks Kyle, for the question. I'm a huge fan of The Housewives of Beverly Hills and by huge I mean not really.

Sometimes I would occasionally walk by the TV in our home, it would magically turn on and just happen to jump to that channel and I would end up watching it. New York show is okay. Atlanta, no. Dallas they've got a new show, no, but on all of these shows each season they would be doing some type of charity event, charity ball. They'd all get dress up in their fanciest dresses and fanciest jewelry, they would take the nice car out or get picked up by a driver and driven to these events. Off the wall food, the waiters are walking around with their trays, everybody is getting drinks, it looks amazing. Big charity events at these nice places like fancy hotels, I'd always be asking myself, "Who is paying for all this stuff?" and the answer is usually it's the charity through the donations.

I can't speak for the show or charities on the show but you can start a nonprofit, throw a big party once a year and write off the whole thing. I can start the [Brahm and Hollace 00:18:14] charity ball, collect 150 grand in donations, throw a $100,000 party, invite Taylor Swift, I don't know, come to the show, play one song for ten minutes and pay her 50 grand or whatever and donate whatever is left over if there's anything left over at all. There are many, many, many, many great charities out there and then there's some not so great charities probably like these ones on some of the shows where they're throwing big parties for essentially themselves. Before you donate to a charity you want to make sure the bulk of your money is going to the people it's supporting or to the thing that it's supporting.

Every charity they've got different overhead, different admin cost for what they have to pay to run the business because it is a business. How do you know if your money is going to where you're hoping it's going to, there's three websites you can check, one is called give.org, there's another call it charitywatch.org and the third is charitynavigator.org and those links will be in the show notes. In the news periodically you'll see stories done on charity scammers. Often a bunch of scammers will pop up right after national disaster, say after hurricane Katrina, after the hurricanes in Haiti. You think you're helping them but you're only helping the scammers make easy money.

Wounded warriors is another one that's been in the news, some not necessarily good things going on there. If you're going to donate money to a charity here's a few things you need to keep in mind. Number one, don't give cash, the legitimate charities out there they will accept a check from you or you can donate online through a credit card or debit card if you want to do that. If someone calls up on the phone don't give them anything over the phone, take down their information and do some research on it. Send them your donation, don't give them access to your checking account, don't give them access to your credit card number, don't give them access to your debit card number. Just because your friend on Facebook pops up a charity doesn't mean it's legit, people will share stuff on the internet, just share it without any research or thought whatsoever so you don't know what's legit and what's not.

Generally just take your time and do some research if you're at a charity event or somebody who walks up to you and says, "Hey," or at work or whatever. Get the information. Get the information first, don't give into that peer pressure to give money on the spot, say, "I will check it out," and that's the end of the story. I was just at Costco yesterday and I was in the checkout counter and the guy said, "Would you like to donate Wooden Water," I don't even know what it was so the answer is, "No." Let's say a friend of ours is raising funds for some charity that they're participating in, maybe a bike ride or a walk run or we got a friend who does Movember for when you grow mustaches.

Normally the answer is going to be no, we've got our set charities that we're comfortable with that we've done the background research on but just to everyday stuff and usually no, the answer is going to be no. Being generous is helpful to others and it's a good thing, don't be afraid to give, just do your background checking first. Make sure the charity is legit and the vast majority of them when you're looking at those websites you want to make sure the 90% or more of the money is going to the people or the cause that it is helping, not to pay the salaries of the administrators or the employees or the rent or the parties or wherever the money is going to. That's just the general guideline that I use.

Now, back to your questions. Sue in Chicago, Illinois has insane in the membrane student loans.

Sue: "I went nuts on school loans. I went back to school at age 28 and mostly I worked in social service. The social service thing wasn't working so I went for my master's, deferred the loans like crazy. Now I'm 50 and trying to make amends in all areas of my life. I have a good job but didn't save, deferred and trying to conquer this mess. My major school loan is a combined and currently $138,000. People told me I should get the ten year loan that whatever amount is not paid at the end ten years is forgiven." The Public Service Loan Forgiveness Program she's referring to. "I've also heard this is only forgiven if you work for a not for profit. My hospital is not for profit though I'm not sure they will accept this as a not for profit.

Is this a good idea or should I go on with my original option to run away with Costa Rica at retirement? Right now I'm tied with my credit card debt that is $41,000 and I have two peer to peer loans. My credit rating is 720. I've owned my own condo since 2010, my mortgage is less than most rent in the area, no car, decent job but robbing Paul for so long. It will take a while to get out of my hole. I'm trying my best though sometimes it feels it is too little too late. What do you recommend for the school loan? My monthly net income is around $4,000." The Public Service Loan Forgiveness, the PSLF program is the acronym it goes under, will forgive the remaining balance of your direct loans after you've made 120 qualifying monthly payments under a qualifying repayment plan while you are working full time for a qualifying employer.

Scott A. T.: You got to qualify that's the most important thing to check first and they have to be federal student loans if you've done some types of refinancing with one of the newer lenders you'll lose that option which is one of the things you want to consider if you ever refinance your student loans. Use that forgiveness option if you work in the nonprofit sector. Qualifying employment for the PSLF Program it's not about the specific job that you do for your employer it's just what your employer is, who they are and where they fall into the program. To qualify government organizations, federal straight local qualify for those it's got to be a non-profit under the 501C3 IRS code. After you meet those criteria you have to start to think about and do you plan on working for your employer for the next ten years.

This is the hard thing, it can be really, really hard to think ten years ahead, "Am I going to be here?" I think it's easier for teachers, teachers normally go on to the profession and say, "All right, I like teaching, I've been here for a while. I kind of think this is going to be my career path." Nursing at a hospital kind of similar but you aren't stuck in your career path for those ten years. If you bail out after 5 years and your plane gets completely derailed if you're planning to go on for that ten year loan forgiveness or not. You could get inheritance halfway through and maybe that will bail you out. Really math is going to help you to decide, in the show notes I'll have you a link to the income based repayment calculator, the IBR calculator from the Federal Government.

It's a loan forgiveness calculator, it's a little complex but you can work your way through it and it'll help you figure out, "Hey, if I wait ten years I'll save this much money." If it's negligible the amount that you're going to save, in your case it's probably not then you can decide, "All right, it's going to take me ten years and six months if I don't follow this program so I'm just going to forget the forgiveness and try to knock it out as quickly as possible." Here is an alternative I heard recently though and it made a lot of sense to me. Personal finance it's all about options in what you want to do, here are your options. Not do this, not do that, it's what's best for me and what that might be completely different and that's what's best for you. Pay your student loan minimums as if you are on a ten year forgiveness plan, just the minimums.

You take every bit extra that you would have implied in order to pay it down quicker, say your goal is to pay it off in just call it five years and make up a number. You take all your extra and you put that in a lock box savings account and you don't touch it then in a year or two years or three years you've got the lock box setting aside, you've still pay the minimums and you have options. You can say, "All right, I can stick with this for another eight, nine years or five years," depending on how long you want to wait. You've got this big savings account on the side. Are you going to pay more in student interest if you do that, if you bail out on the ten year plan? Yeah, absolutely but you will have more options.

Saying eight years you realize, "Hey, I've got two more years to go on this ten year forgiveness plan," you got this big pile of cash sitting over there and savings from all the extra payments that you didn't make because you're waiting on the forgiveness. I'm not saying hold on to it for eight years but if you hold off for a little bit at least it gives you time to think about it. First get the credit card debts knocked out, it's partly number one because the interest rates on those are probably higher than your student loans and those credit cards they're not going to be forgiven unless you declare bankruptcy. While those are being paid off you start into your ten year PSLF period, you get into that period and kind of get going and see how it goes. Step number one, you got to figure out if you qualify, that's going to drive all your other decisions.

Thanks, Sue, for the question. I have an internal saying that keeps me motivated, I don't want to be able to blow myself away, not to impress anyone else, not my friends, family, strangers, just nobody. It's me against me and it's you against you. I'm not trying to be the best because there will always be somebody better, somebody who's got more money, somebody who's got better hair, somebody who's a better father, husband, business person. The one exception is nobody's got a better cats but I have no control over how awesome my cats are anyway. Even if were a professional athlete you can always sit at number one for so long. I better be trying to improve other areas of my life so I can always be challenged. You can't beat me, you can't, but I can't beat you either.

Maybe sometimes occasionally at some things but not every time. When you focus on winning the battle within, you take the pressure of yourself of trying to meet somebody else's ideals and somebody else's achievements. You don't have to compare yourself to anybody else. You also find when you focus on your game and your life and your money and your relationships. They will improve ten times more than if you're constantly comparing yourself to others which often just leads to discouragement. Use others as a guidepost to learn from rather than as a measuring stick of your own accomplishments. Those are the words. That's it for this episode Losing My Speaking Ability. I'm your host Scott Alan Turner Rockstar. Katie is my producer. All the links mentioned in the show are available in the show notes on ScottAlanTurner.com. Other question they'll get answered on the show visit goaskscott.com and leave me a voicemail. Thanks for listening.

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