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The Simple Path to Investing Using ETFs

DISCLAIMER - I am not a Financial Advisor and do not work for any Brokerage Firm. The opinions given are of my own and are not to be used as professional advice. These are my findings and can hopefully help you to make informed decisions on investing. Consult a Broker or Lawyer before making any investment.

Learning how to invest is sometimes a scary thing to many people. If you are young (or old) and have never invested before, determining where to start is difficult. I remember opening my first investment account back in 1973 at Merrill Lynch. I was the tender age of 22 and thought I was ready to get started. Immediately I realized that Investment houses and stock brokers talked a whole different language than I did. I was blessed to have

a good broker, and he bought me a copy of “The Intelligent Investor” by Benjamin Graham and suggested I read it. It has been years since I read it, so I have not done a book review on it. In the book, Mr. Graham spends a lot of time explaining how to read company financial statements and how a person should try to buy a company’s stock when its price is less than their Net Asset Value.

Probably just reading that one paragraph is enough to make many of you want to stop reading. But hang in there with me. If you have a background in finance or accounting, this will make more sense. But if you know nothing about accounting and financial statements, there are still plenty of ways for you to invest.

In two of my earliest articles, I tried to explain the 4 main vehicles that are used to invest. They include Stocks, Bonds, ETFs (Exchange Traded Funds), and Mutual Funds. Now there are many other ways to invest than these, but these four make up a large segment of the stock market financial opportunities. To read about Stocks, ETFs, and Mutual funds, read here:

https://lifecanbesimple.net/blog/investment-categories

To Read about Bonds, read this article.
https://lifecanbesimple.net/blog/what-is-a-bond

Today I want to discuss ETFs in a bit more detail. An Exchange Traded Fund is much like a stock. With a Stock, you are effectively buying ownership into the company. Say you like buying at COSTCO discount stores, you might go down and buy a few shares of that company’s stock. When you buy 10 shares, you become a minor partner in owning Costco. If they pay dividends, each quarter (or yearly), you will receive a dividend check. I don’t own Costco, but I own Walmart and McDonald’s.

Both of these companies pay like 3% dividends, so if the stock was $20 per share, you would receive $6 per quarter in dividends for each stock share you owned. So if you owned 100 shares, you would receive $600. And on top of that, if the stock goes up in price when you sell your shares, you will have a capital gain from the difference. To prevent having to pay capital

gains taxes, you can invest in an IRA (Traditional or Roth), and you never have to pay taxes on the gains in the ROTH IRA, and only pay them on the traditional IRA when you withdraw funds. But IRAs are good ways to invest money. Read about those here:

https://lifecanbesimple.net/blog/differences-in-roth-and-traditional-iras

My wife and I both started off with Traditional IRAs, but have converted all of them to ROTH IRA's so we never have to pay taxes on any money withdrawn. When you put money into a ROTH IRA, you get no tax break. But the biggest break of all is all that money comes back to you tax free when you retire or need it.

So the $600 of dividends which is Passive Income (money you did not have to work for), comes in and that is great. But say your $20 stock goes down to $15. Until you sell it, you have lost no money. But if you needed the money for an emergency, then you would have lost 25% of your investment. It is best to never buy stocks without a large cash emergency fund so that you can ride out the ups and downs of the market.

If you are like me, the idea of losing 25% of my investment is scary. What if there was a way to minimize that loss? There are MANY ways, but we are going to zero in on one of the best. Don't buy that one stock, but buy an ETF. The ETF is based on some index or sector type. There are 11 different sectors to invest in.

List of 11 Sectors

1. **Energy**
2. **Materials**
3. **Industrials**
4. **Utilities**
5. **Healthcare**
6. **Financials**
7. **Consumer Discretionary**

8. **Consumer Staples**
9. **Information Technology**
10. **Communication Services**
11. **Real Estate**

ETFs are available over any one of those sectors, and then they can get very specific. An example is a new ETF that just came out in the past month covering all Lithium companies. LIT I bought a few shares of this ETF and my $30 is already worth $34 in like 10 days. Personally, I think Lithium is the next big thing with all the cars switching over to EV power on Lithium batteries. I could be wrong, but this is an example of a narrow-focused ETF. This is just one type of industry inside Sector 2 above (Materials). SLV is all the silver companies. There is one on GOLD which is GLD. (SPDR GOLD SHARES**)**

So a person can identify what they want to invest in, and suddenly you are no longer at the whim of any one stock. However, you may not reap the higher dividends of specific stock selection, but you are going to get a very consistent average over that sector/group you have chosen. If your goal is to invest in DGI stocks, you can still use ETFs. I believe that DGI stocks and REIT (Real Estate Investment Trusts) are the two most promising of all the types of investments available today.

DGI stands for Dividend Growth Stocks. A few ETFs that specialize in those are: NOBL FDVV SDIV DHS and my favorite LVHD. Another great ETF for DGI investing is PFF, I-Shares Preferred Stock Income Sectors. Preferred stocks are some of the better investments when given proper scrutiny. We will cover those in an upcoming article.

If you buy any of those ETFs, you are getting a broad range of Dividend Growth Stocks. Will they give you an exact percentage each month? No, but it is an average of all the stocks these companies chose to include in their portfolios. So each of these ETFs will provide varied returns. Why I like LVHD the most is in this horrible year with the S&P 500 plunging 22%, this ETF is still making money. That is a tough thing to do. The others have done well, but LVHD is very, very good.

How can you buy an ETF? Well, you have to use a brokerage firm or some app that allows you to purchase the ETFs. Now be aware if you purchase the ETF outside of an IRA, then you will have to pay taxes on both the dividends and the capital gains as the stocks appreciate in value. I do 99% of my investing inside of ROTH IRAs so I never have to pay any taxes on the dividends or the capital gains.

What is super about ETFs is they constantly change in value throughout the day, and they are totally liquid. What I mean by that is that you can buy or sell them at any time the market is open. So if you need your money, they can be sold by simply opening your browser or app and issuing a transaction to SELL. Of course, it all depends on the market as to whether you will make or lose money. I have never used ETFs to do short-term trades. Some people do and some ETFs are designed for that purpose giving 2 or 3 times a certain category in movement. So say you have 3x Energy ETF, it will go up or down 3 times as great as the underlying sector moves. So you can make huge profits or lose it all very quickly.

I don't believe in day trading myself, and do all my investments as long-term investments. That means I don't try to time the market or move in and out of stocks or ETFs, but continually purchase more. If I see some sector going down with no good outlook, I may sell out that ETF. But on the larger sectors like the FULL Stock Market ETFs like ITOT, VTI, DIA, and SCHB, I simply continue to buy even more on market dips.

You have to get in and get your feet wet to find out what works for you. If you are unsure of what to buy, discuss it with your broker, accountant, or lawyer. All of the ETFs I have mentioned today are very consistent performers, especially in good markets. The only one mentioned that is somewhat speculative is LIT being the Lithium ETF. All others are very consistent ETFs that consistently have had good returns.

I urge you to study and read a lot of resources. I feel comfortable investing today as I have a feel for the market after years of study and some struggles. I have no crystal ball and can not tell you if the market is going up or down. Being as high as it is now, it may very well have a huge

downturn in the upcoming year.   But putting some money in ETFs in a ROTH IRA is a very logical way to get some passive income.

List of All Investment Articles https://lifecanbesimple.net/investments.html

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