sy·lla·ble
2020/10/05

A letter to myself, on being a newbie investor

Introduction

This is a letter to myself – to me, the newbie investor. I'm writing this letter to help me remember the lessons I've learned so far while learning about investing. I decided to share it as an open letter in case it's helpful for others.

I consider myself a newbie investor. Even as I learn little bits at a time, I hope to always consider myself a newbie investor, because I always want to stick to the basics. I want to avoid any clever tricks and shortcuts which often yield no more gains than shuffling between lanes in highway traffic. Stick to the basics: Think long term. Buy low, sell high.

I want to constantly remind myself WHY I'm investing. I'm not investing to get rich quick. Although *I am* investing to get steadily wealthier, I'm also investing for the sake of *participation in a financial democracy*. In other words, however small my financial power may be, I want to "put my money where my beliefs are."

I don't want a savings account with a big bank who will invest my cash in harmful industries and pocket the earned interest. I want to use my small financial vote to fund the change that I want to see in the world.

Yes, investing takes a little effort, and it comes with a small amount of risk. But I think the work is justified both from the financial gain, and from the learning experience gained from participation in our entrepreneurial markets.

The lay of the land

No risk, no reward

Reward is generally proportional to risk. This might seem scary at first. But there are ways to take on risk in a way that isn't very risky over the long term. This is my goal.

My demographic profile would say I am a "young, risk-tolerant professional." Even if I don't have very much excess cash, *I'm privileged that I can afford to take on more short term risk* because I'm generally insured against big unexpected expenses. I want a plan that fits this profile. When time is on your side, you can be patient through periods of short term risk in order to take advantage of low-risk, long term gains.

What does safe risk look like in practice?

1. Take some money from each paycheck that you might normally put into a savings account. Instead, put some of it into a diversified index fund.
2. Take some money from each paycheck that you can afford to lose – money you might have spent on luxury items. Instead, put some of it into a speculative, but well-researched investment – like a company you believe will change the world.
3. Your portfolio will start small. But it's just like tossing change in the piggy bank; start today and it will add up before you know it. In ten years, it's highly likely to outperform your savings account.

Disclaimers!

This is NOT FINANCIAL ADVICE! :) I'm far from an expert. Consider me a total novice at all of this. My hope is that this letter is a jumping off point to inspire others to learn on their own.

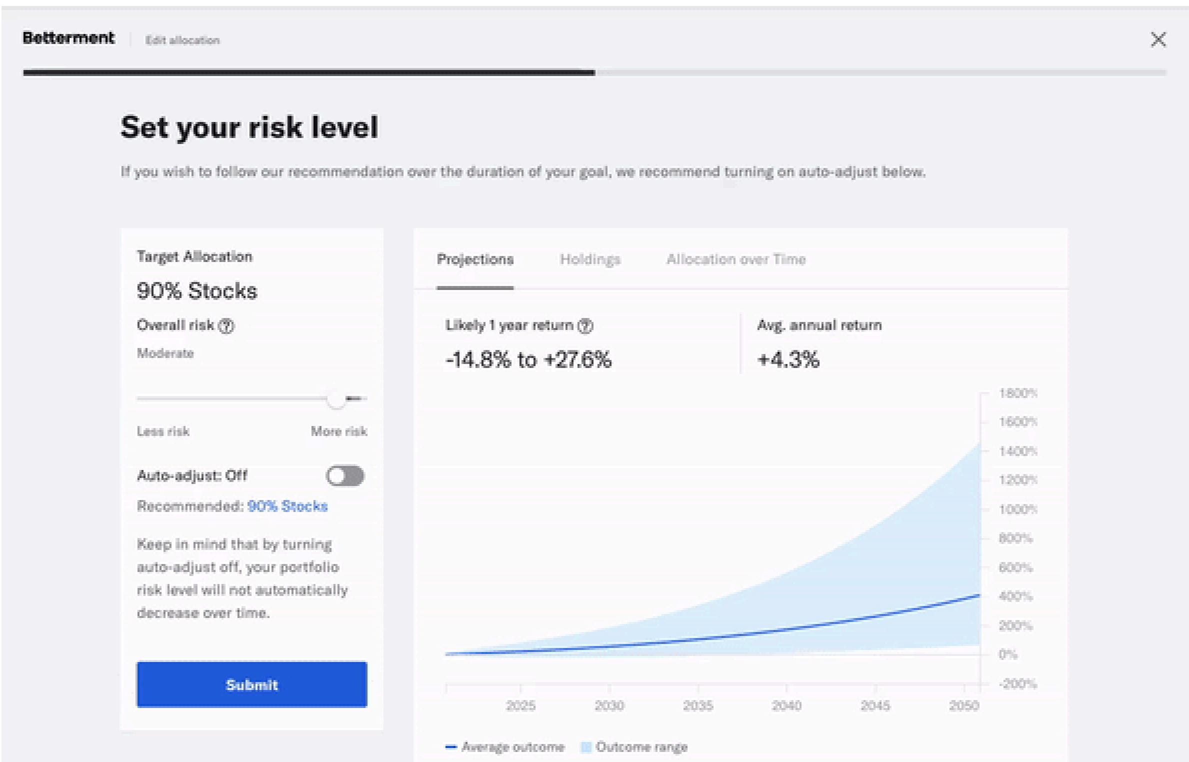
My investment plan, step 1: build a diversified base

Automated investing into a diversified portfolio with one click

I don't have a "savings account." I instead use a "robo-adviser" service which automatically invests my savings into a portfolio of investments. I use Betterment, but there are lots of good "robo-adviser" automated investment options out there.

I follow Betterment's personalized recommendation which is to invest 90% in stocks. While this carries some risk in the short term, in the long term, this is arguably very unrisky while maximizing my investment potential.

I love how Betterment illustrates this risk profile to you. Here's a gif of how it looks:



^ Let me explain. This tool illustrates *why* they recommend a 90% stock / 10% bond distribution for my demographic. Note how when the slider is set to low risk, the band of possibilities narrows. When the slider is set to high risk, the band widens, and the average of that band goes up. With higher risk, the band *does dip down below zero* in the short term indicating that you *might* lose money. But *in the long term, it adjusts back up above zero*.

*This is the key. Your near term risks tend to average out over the long term. So a higher risk profile should offer bigger returns in the long term without exposing you to much additional long-term risk.**

*Note that this is only a good bet if your portfolio is well diversified! But Betterment automates this for you. Also note that it's safer to put in money gradually over time as opposed to all at once.

Automated Socially Responsible Investing (SRI)

I love how services like Betterment give you the option to ensure that your portfolio is invested in only socially responsible investments. The yield is about the same as a traditional portfolio and has only slightly higher fees (about .18% on average). For me, this is a no-brainer. The small cost is well worth it to align my investments with my values.

My investment plan, step 2: conviction in a new market

Another disclaimer: I'm really not qualified to give anyone advice here except: "Don't risk what you can't afford to lose." So please remember, I'm just sharing what I'm doing.

Wait for an emerging industry you believe in. Let true conviction lead you.

It might sound crazy to sit around and wait for a whole new *emerging industry.* How long do those come along, right? But that's what I'm doing, and in the last 5 years, I've found two: The first was cryptocurrency. The second is now renewable energy. And my plan *really is* to just wait for these rare new revolutionary markets. Until one comes along that *you* believe in, I would just stick to step 1, and be patient.

When you find your *revolutionary new market* in which you have strong conviction, invest gradually. Do your research. Diversify enough to hedge against single wins and losses. And be patient. New markets are roller coasters. You'll witness boom and bust cycles.

Be disciplined! *Do not buy during hype cycles*, and *do not sell during fear cycles*. Remember that your conviction is your secret weapon. Because it gives you the confidence to double down when others are too afraid. If you can stomach this, and *if* *you're right* about this new market, then you can benefit from these volatile waves of an evolving new market.

A rising tide lifts all boats….Unless the boats aren't seaworthy. So do your research. Value fundamentals, not hype. Always check for holes.

A simple strategy of patience and time

1. Wait for an emerging industry that you are convinced will succeed.
    a. For me right now, this is decentralized technology and green energy.
2. Spend time to research that field and gain expertise.
3. Identify stocks or assets that you have researched thoroughly and truly believe in.
    a. Consider all the important elements. Team, market cap, competitors, etc.
4. Gradually buy a stake in that asset and wait patiently
    a. If an asset triples or more → then take out your initial investment
        i. Now you have zero risk and only potential upside.
        ii. Reinvest that initial investment into a new opportunity.
    b. If not, keep waiting patiently.
5. Repeat.

What am I investing in?

Decentralized technologies: cryptocurrency, blockchain, open source, etc

See also [Crypto Assets I'm investing in going into 2021]()

Bitcoin

I first learned about Bitcoin in 2009 and was instantly fascinated by it. I tried to buy some then, but I gave up after a few cumbersome technical steps. I won't tell you how much money I could have made if I had bought some then. Because it's a bad habit to think that way. But this was an important lesson! TRUST YOUR CONVICTION. Though, always with a grain of salt. As a favorite teacher used to say: "Always look both ways."

Ethereum

I did buy some cryptocurrency finally in early 2017. That's when I heard about ethereum. I learned how ethereum was more than just another internet currency – it was a decentralized *computation network*. People could use it to build *their own decentralized payment networks*. I saw the enormous potential. I saw how this could unlock new, previously unimagined markets that could be worth trillions of dollars. (!!!!) This is the feeling I want when I make a higher-risk investment. And even then, it's so important to do your due diligence. Find all the ways the asset could fail, and weigh your risk accordingly.

> ***Aside: "But I don't get it, where does cryptocurrency value come from?" You ask...***
> Good question! I wrote a blog post to try to answer this for a layperson audience. I can't promise it will be a satisfactory answer, but here you go!
> The Network Is The Value: An Essay About The Value Of A Bitcoin

What's next for decentralized assets
There's way too much to discuss for this little document. But right now I'm focused on investing in some of Ethereum's competitor/frenemy projects. These projects are working hard to improve the efficiency and scalability of decentralized networks. Many of the smartest computer scientists on the planet have been researching and building for a decade to solve this problem, and they're succeeding. Many projects are launching out of beta testing into live, fully-operating networks. These are exciting times. I believe that one or more of these projects could soon become a household name as they revolutionize our financial infrastructure.

To name just a few, here are some projects that I'm following closely:

- Bitcoin
    - The OG. So decentralized that it doesn't have an official website.
    - Bitcoin is not going away anytime soon. But bitcoin is just a "store of value." It doesn't have the advanced functionality of these projects below.
- Ethereum
    - The incumbent "decentralized computation" network with smart contracts. The ones below are some new competitors/frenemies to ethereum.
- https://www.avalabs.org/
- https://cardano.org/
- https://www.algorand.com/

We're still in very early days, and the landscape changes very quickly. Be warned that this is a young, wild-west field, and there are thousands of projects making ambitious claims that don't hold up. So trust nothing until it's strongly vetted.

> ***An aside: Remember to take out your initial investment***

Remember when I mentioned taking out your initial investment? I did that with cryptocurrency, and this was important for me; now, I'm not investing any *new cash* in these cryptocurrency assets - I'm using past profits from earlier cryptocurrency gains. Even if everything crashes to zero, I've lost nothing overall. This is how you can slowly build a low-risk portfolio of risky assets from a modest start.

So you want to get started buying some cryptocurrency?

If you want to get started buying some cryptocurrency, I would suggest sticking with Bitcoin and Ethereum at first. Here are a few trusted places you can buy some using your checking account.

- https://gemini.com
  - Well respected company, run by the Winklevoss twins.
  - This is my current top recommendation.
- https://robinhood.com
  - This might be the most user-friendly way to buy. They have a limited listing of assets, but they have Bitcoin, Ethereum, and a handful of others.
  - Robinhood doesn't yet let you withdraw crypto assets.
- https://www.coinbase.com
  - A prominent silicon valley company. (I'm currently mad at how their CEO has handled some internal politics, so I'd suggest gemini instead for now.)

Where to learn more?

Start by following some of these blogs. They're not always the best "news," but they'll keep you up to date on what's happening. It will be overwhelming at first, but you'll gradually get to know the concepts and terminology.

- https://www.coindesk.com/
- https://cointelegraph.com/

Renewable Energy

I recently started investing in renewable energy through stocks and ETFs that I buy on Robinhood. I'll be the first to admit that I'm not a sophisticated investor, and I'm still learning the ropes. But I have learned a lot about renewable energy by doing my own research over the past couple years, so I now feel confident that the renewable energy market as a whole will do very well over the next 5+ years.

One example of an asset that I own is an index fund called [PBW - PowerShares WilderHill Clean Energy Portfolio].

PBW "tracks a modified equal-weighted index of companies involved in cleaner energy sources or energy conservation." An asset like this is a convenient way to get diversified exposure to green energy without doing as much research about individual stocks.

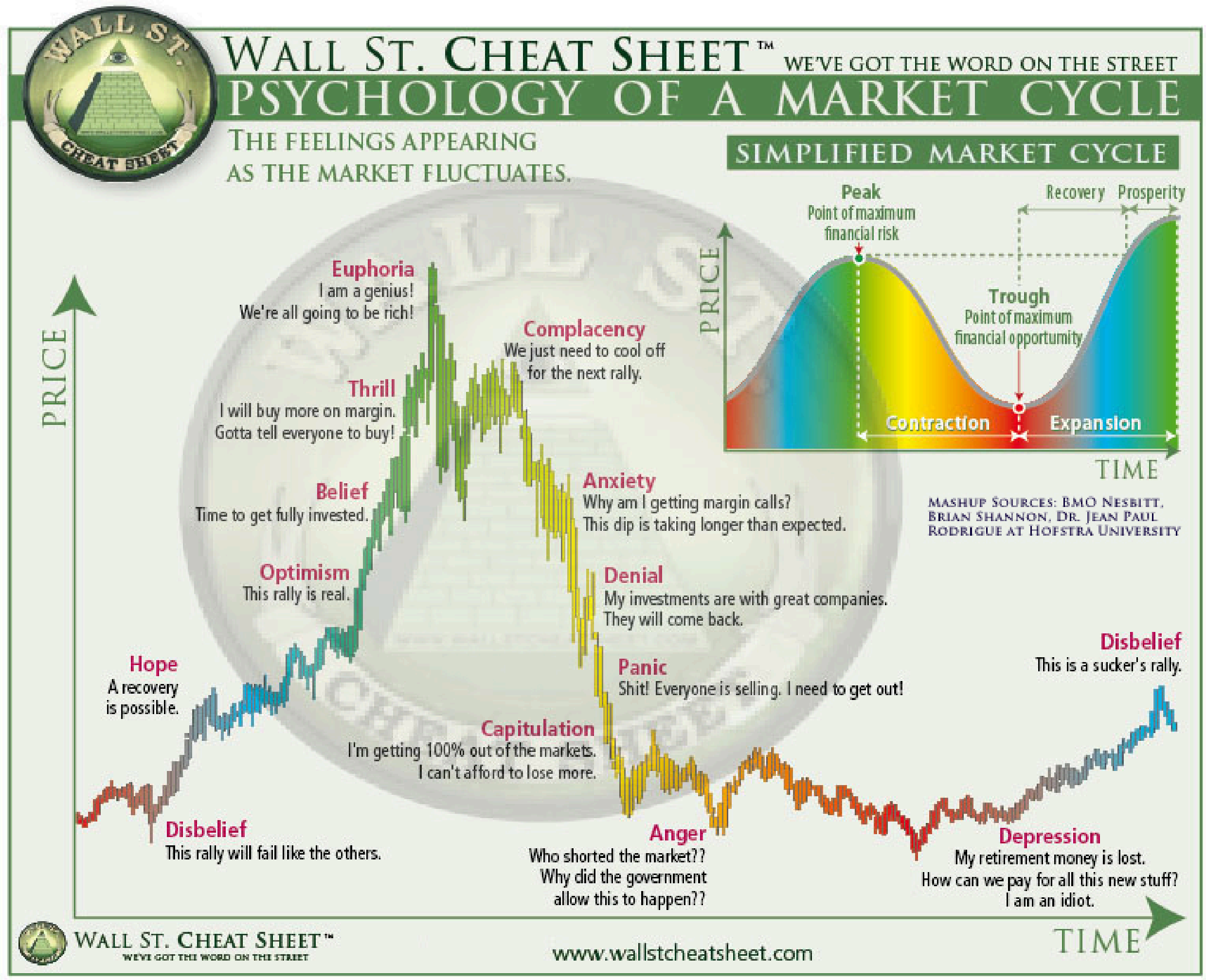
Miscellaneous Words of Advice

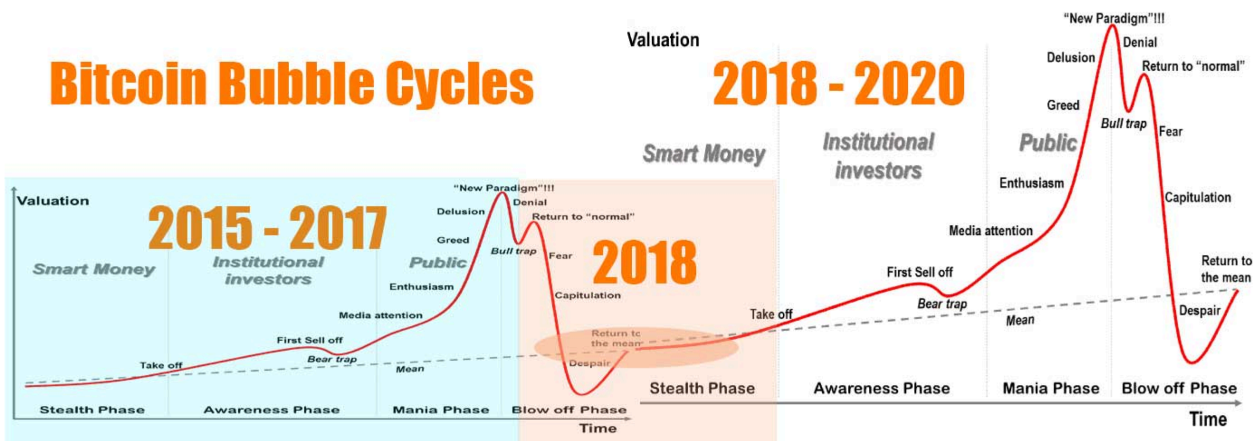
No promises about any of this. "Your mileage may vary" as they say.

1. Buy Fear; Sell Greed
    a. This is like the first commandment of trading.
    b. If you can't stomach this lesson, don't *trade* anything; just invest gradually, and hold until retirement.
2. Don't FOMO buy. (See #1)
3. Don't panic sell. (See #1)
4. Do your research.
5. If you've done your research, then you should have so much conviction in what you bought, that if the price dropped in half, you'll only be excited for a discount, and you'll double down. Picture yourself actually doing this. Plan ahead. If you don't believe you'd actually do this, then revisit #4.
6. Big money always wins. They're the house of the casino.
    a. You can't outsmart big money by being clever or fast. Don't try.
    b. The only way you can beat big money is by:
        i. Having more specific domain knowledge than them
        ii. AND having more conviction than them
        iii. AND having more patience than them.
    c. You win by trusting your hand and playing the long game.
7. You can't beat the government. [Don't fight the fed].
    a. See also #6.
8. Understand that *you have already invested in Dollars*. Cash is not a risk-free position. Dollars are your default investment.
    a. Holding dollars comes with its own hidden risks (inflation, etc.)
    b. By avoiding all other investments, you will almost certainly lose some wealth though inflation in the long term.

9. Timing is everything. A good asset at the wrong time is still a bad play. Although, thinking long term will mostly eliminate this concern for you.

And because Infographics are Worth 1000 Words...




Bitcoin Bubble Cycles
2015 - 2017
Valuation
Smart Money
Institutional investors
Public
"New Paradigm"!!!
Delusion
Denial
Greed
Return to "normal"
Bull trap
Fear
Enthusiasm
Media attention
Capitulation
First Sell off
Bear trap
Take off
Mean
Return to the mean
Despair
Stealth Phase
Awareness Phase
Mania Phase
Blow off Phase
Time
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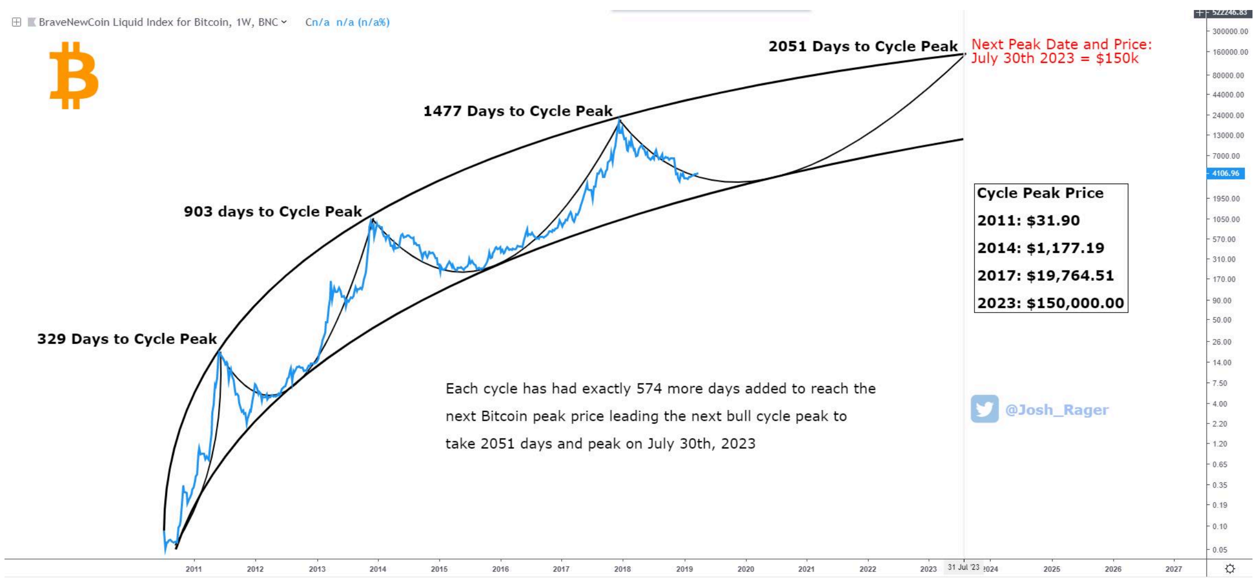
BraveNewCoin Liquid Index for Bitcoin, 1W, BNC
2051 Days to Cycle Peak
Next Peak Date and Price:
July 30th 2023 = $150k
1477 Days to Cycle Peak
903 days to Cycle Peak
329 Days to Cycle Peak
Cycle Peak Price
2011: $31.90
2014: $1,177.19
2017: $19,764.51
2023: $150,000.00
Each cycle has had exactly 574 more days added to reach the next Bitcoin peak price leading the next bull cycle peak to take 2051 days and peak on July 30th, 2023
@Josh_Rager
2011
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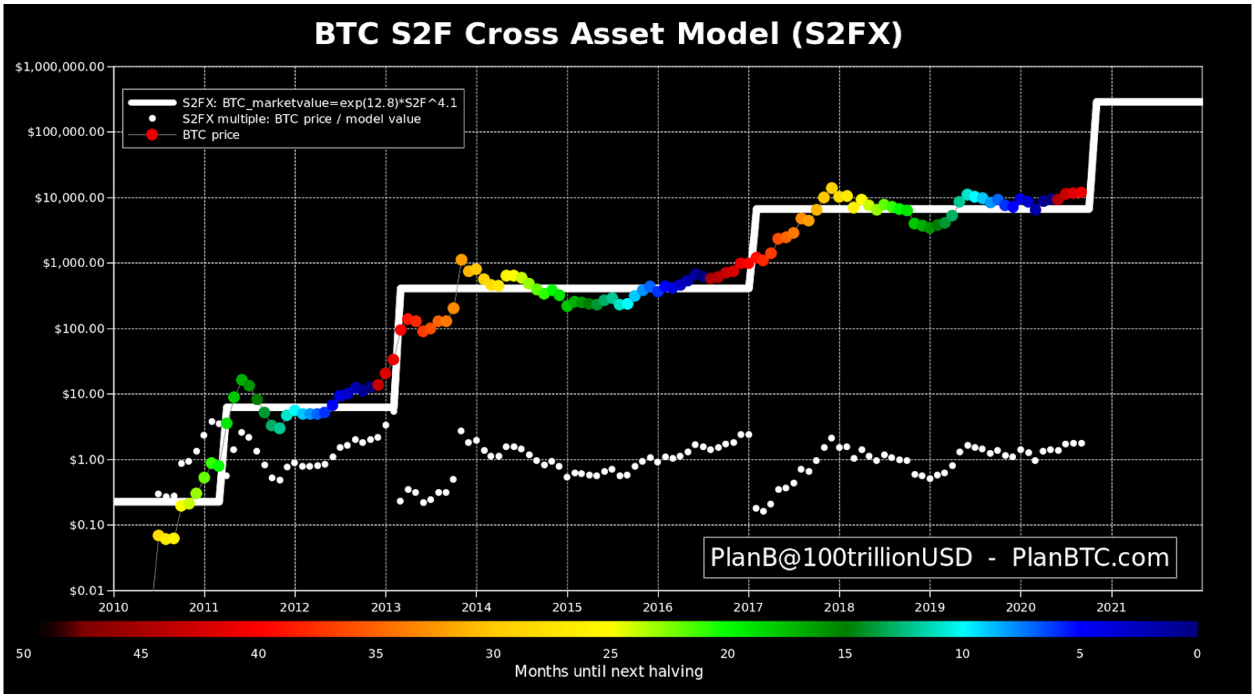

^ Showing logarithmic scale view of bitcoin boom/bust cycles. From [this article](#).
Hint: Many people believe it's a good time to buy bitcoin because of where we are in this projected cycle. (Note: this was published on 10-5-2020)