# Brian Feroldi Talks About Why the Stock Market Always Goes Up

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**D**

**Dave**

0:00

All right, folks, welcome to investing for beginners Podcast. Today we have a special show; we found this semi bald guy on the internet by the name of Brian Ferrante, who is an educator, a financial educator. He's also an author who wrote this great new book we're gonna talk about today, Twitter extraordinaire, YouTuber. He's kind of all over the place. And smart guy, very energetic. And this is gonna be a lot of fun. So Brian, thank you very much for joining us today. We really appreciate it. And I have a very interesting question for you, kind of starting out of the gate. So when you were a kid, what did you want to be when you grew up?

B

**Brian**

0:32

I, Dave Andrew, thank you so much for having me. And for that riveting introduction that is spot on with accuracy. What did I want to be when I was a kid? I'm still trying to figure that out. To be honest, I had no thoughts about that. I had some thoughts about that as a kid. The funny thing is, I vividly remember when I was a kid, I went to a like my elementary school dance with my mom. And we got to take a limo on the way there.

And I remember my only desire as a kid was to make sure that I had a limo that drives me around in life, and I also used to have a crazy thought, like, you know, someday I want to own my own business so that I can work from my bedroom. Like that, for some reason, was the thing. But you know, this was like the 80s and 90s. And I was like, Okay, well, that's impossible. So forget that test to get that dream. So I didn't get the limo. But I did get the work from home thing. So I guess from that success.

D

**Dave**

1:24

Oh, that's awesome. Well, I wanted to be a centerfielder for the San Francisco Giants when I was a kid. So you know, hey, we all got dreams. They don't always get there. But it's fun to think about it. So I didn't just start in finance. Where did you know the love of numbers, if you will, or stocks or whatever come from? B

**Brian**

1:40

So I think that I was just born naturally interested in money and saving. Like some people are just born savers. I was just a natural saver. Whenever I made money, I just had some inclination to always set some of it aside for the future that was just like built into my bones. However, I wasn't educated formally or really informally growing up about how money works, how investing works, and the real details of personal finance. My parents were great teachers, and they did the right things, but it's not like they ever sat us down and said here's how you think about money. Here's how you investor or anything like that they themselves were good at making income good living below their means.

So I learned that for them by osmosis. However, what really turned kickstarted the love affair that I currently have with investing in the stock market. I was after I graduated from college, I got my hands on my first book about money, and that was *Rich Dad, Poor Dad* by Robert Kiyosaki. My dad handed it to me after I graduated, and I just immediately took to that book. I mean, I devoured it. And I read that in a few days. And then I reread it from there. I basically wrote Aaron every book that he wrote, and that led me on to other books. I learned about Warren Buffett and Charlie Munger, I learned about the Motley Fool, learned about Seth Klarman. And after thinking through the various ways that you can invest, I gave some thought to real estate. I learned quickly; that's not for me; I gave my thought to owning a laundromat; learn quickly, that's not. And then I settled on, you know, this whole stock market thing where I buy, and I can sell from my house, I don't have to manage anything, the assets manage themselves. And if I can apply a long-term mindset to them and come up with some selection criteria, that style of investing really appeals to me.

Now, the job that I had out of school was I was lucky enough to join a startup, and the medical device company, the company, was pre-FDA approval and running on venture capital funds. And this was back in 2004. sheer luck on my part, that company is now worth more than $10 billion and publicly traded. So I got on the ground floor of pure luck company. But uh, one thing that Job did afford me to I wasn't passionate about that Job in per se, but I was in sales for them. And I was in my car for 3040 hours a week driving around, and I used all of that time to binge listen to podcasts and audiobooks, listen to accompany conference calls, and really learn everything that I could about money personal finance, and investing.

So I would say that kickstarting my love affair was in 2004; after reading Rich Dad, Poor Dad, which by the way, is a book, I don't completely agree with everything that they say now. But that was a gateway drug for kickstarting a love affair that I had with investing.

A

**Andrew**

4:18

That was a bit of a gateway drug for me to just the way he presented the idea of creating an income stream; maybe can you touch on that for somebody if there happened to be tuning into the financial podcast for the first time they stumbled on this one? What about income streams is so appealing, and why should people pay attention? B

**Brian**

4:39

Yeah, that book was the first book that I ever read that introduced some very important concepts and principles about money and real-life that are just timeless. Some of them that I learned was everybody is in business for themselves. That one really hit home for me like I always thought your whole career was finding a job with a stable company, growing within the ranks there worked for them for four to yours, and that's what you did when somebody said, No, you're actually in business for yourself. If you work for a company, then you just have one customer. And that customer is really your employer.

And that concept is so simple, but it kind of like blew my mind. Another one was the rich think about money differently than everybody else, the rich make money, and they think, how can I use this to buy an asset? How can I use this to increase my wealth? How can I start a business with this? Or buy a piece of real estate or whatever? How can I take the money that I have and grow it? A lot of other people are just naturally trained to be okay; I have this money; how can I best consume it? Like what can I buy? Can I go on a vacation? Can I buy a nicer house, a nicer car, whatever it is? So that was really important, the idea of that the rich use corporations and taxes differently?

And how does tax law, like the very basics of tax on the difference between an asset and a liability, build multiple income streams for themselves? Those were the real core principles that I took away from that book and really have tried to embody in my life. D

**Dave**

5:57

Yeah, that's awesome. So the question that kind of comes to my mind is, why do you think financial education, especially among young people, is so lacking?

B

**Brian**

6:05

That's a really hard question to answer. I can say that I was taught nothing about money, or investing in elementary school, middle school, or high school, for sure. And I was taught very little about investing while I was in college. And I say that as someone that graduated with a business degree, right. I mean, I remember a couple of times, my professors offhandedly mentioned what like a dividend was in like the middle of a class, the class was on like health care management. And he was talking about the dividend. I was like, That blows my mind companies pay you cash just for owning the stock; like, what can we explore more about this topic? No wonder why rich people like them.

So that was like an accidental thing that happened in the class. But I was taught nothing about how a business works, the phases of a business, or what the stock market is and why it goes up and down. So I don't have a good answer to that other than to say, I don't think a lot of teachers themselves are really fluent in money and finance because they themselves were not taught that the principles I know that some of them do teach around the curriculum and do a great job of educating people. But I just think that that's just a, broadly speaking, piece of education that is missing from the education system and missing from teacher education.

D

**Dave**

7:21

I totally agree. And that's, I mean, that's really why we're, I think we're all here is to try to help educate people and help people learn how finance works, how money works. I worked in the banking industry for a while, and I literally had people come to me and say you wouldn't meet, I don't have money, I have checks, you know, those kinds of conversations actually do happen. And you know, when you see it from a 35, or 40-year-old person, it kind of shocks you a little bit. It's a 16-year-old kid; okay, sure, maybe I get it.

But that's one of the things that I like about your book is that it's so approachable and it's easy to read. And it kind of lays out all these great topics that I think people can learn a lot from, you know, especially if they're going to start learning to invest. There are so many topics. So I guess for you, what drove you to want to write the book?

B

**Brian**

8:05

Yeah. So the title of it, I think, is very illuminated. The title is, *Why Does the Stock Market Go Up*? If you come across investing in any way, I think you are at least aware that there's something called the stock market. For some reason, there are these terms called the Dow Jones Industrial Average and the s&p 500. The NASDAQ that the news always talks about never explains what they mean, by the way, but always talks about them. And that if you come across investing, the odds are good that you've probably heard that the stock market goes up 10% per year, that's something that I heard for years, and that the stock market is, for some reason, a good investment.

Now I read, so I devoured books about investing when I first started, and so many of them are fantastic write books by John Bogle books by Charlie Munger by Peter Lynch. And they all talk about how the stock market is a magical thing that tends to go up over the long term; it's a great idea to put a dollar-cost average into it. And if you do that consistently, in 10,20,30 years, you'll be rich. Yep, sounds great. Why does that happen? What is the reason that the stock market goes up 10% per year? I never came across a book that explained that in just plain English to; me now; I'm a very curious person. As I said, I was studying this intensely on my own in my free time. And over the course of a couple of years, I gradually learned the answer. And once I learned the answer, I was like, Oh, this isn't hard. It's not hard to understand why the stock market goes up.

But why isn't there just a book out there that explains that in like very simple, basic English? And I never thought that I was going to write a book. I actually was wondering myself once I learned why a book like that didn't exist. I mean, there are 1000s of great books about investing in the stock market. But I just wondered why isn't there a book that just explains the extreme basics, including and During the most important question that I have, which is why does it go up? And after waiting for many, many years, a couple of my friends, Morgan Housel. And Brian Stouffer said, maybe you're supposed to be the one that writes it. I was like, I don't know how to write a book. Okay, I guess I'm gonna try this. So I started about 18 months ago, and it just launched a month ago. But the person that I had in mind when I was writing was someone that's either fresh out of college or just getting their first Job signing up for their 401 K. And being in the exact same position I was when I first did that, like, I remember getting the forms from my 401k, from my HR person at that company I was talking about now like, here you go fill out this form.

And I was like, Alright, what do I do? What do I choose? What do these terms mean? And I was looking for advice. And the HR person literally couldn't give me advice; she wasn't allowed to. And I was like, Okay, here I am. This seemed like an important decision. I literally don't know what these terms mean. And yet, here I am making an important decision about my life; I know that so many people are in that exact same position that I am, was in. So I asked myself, What do I wish I could give myself and that moment so that my book was designed to be given to that person in that time, they now know something they need to know about the stock market, but they just need to know the basics. That's what my book was designed to answer.
A

**Andrew**

11:12

So can you spill the beans? Why does it go up?

B

**Brian**

11:17

Yes, it's a longer topic that we could probably cover here quickly. But the thing that I never understood about the market, and a thing that I think so many people don't understand about the market, is there's a direct relationship between the price of the stock market and the profits of the businesses that are in in the stock market. That is something that is completely obvious to us. The reason that that information is hidden is that what is the thing that is easy information that is accessible all the time to everyone, even with a cursory glance, the stock market price, everybody knows the price of the Dow the s&p 500 what it did, how many points it went up today or yesterday, that information is instantly accessible to everybody all the time. You know, it's hard to find corporate profits; how have the s&p 500 earnings fared over the last 135 1020 3050 years? If you ask that question, 90% of people would at one have no idea what you're talking about and have no way of looking up that information.

But once I discovered that there was a direct relationship, in the long term, at least, between how businesses performed, the profits that those businesses produced, and the prices that their stock trades at, that's when it all suddenly made sense. And so the goal of the book was to establish that link between the price that you see in the market, which is apparent, and business profits. Explain why corporate profits have risen every year, not every year, but consistently over long periods of time, for the last 150-200 years, and lay out the case for why that should continue to happen. Moving forward. Once you understand that principle, I think you can just invest with a whole nother level of confidence because you finally understand how the market actually works.

D

**Dave**

13:12

Yeah, totally. So I guess the next reveal is where can people go to find out this profit thing? Like, what voodoo are you talking about here?

B

**Brian**

13:20

Yeah, getting the information really isn't easy. There are some resources online that are doing, so the gold standard for me is Robert Shiller's wonderful database that he provides for free on his websites; you can just type in Robert Shiller s&p 500 data. And even sites like CNBC, for example, do show this data on occasion, but it's not easy information to find; my two sources are Robert Shiller.

And then there's another great website called Giardini y AR D I N i.com, I believe. And if you type in s&p 500 earnings, you can find sources that have it, but so many people don't even know that that's a term that you should even search for. So finding that information is not easy.

A

**Andrew**

13:59

Maybe you can make it easy if it feels like your job to write this book. Maybe it's your job to make an easy-to-follow a ball or index for s&p earnings or something.

B

**Brian**

14:09

Yeah, maybe I'll start a newsletter and just say out here, here are the earnings of the s&p 500. This quarter sees in 90 days.

D

**Dave**

14:17

I think you know, maybe the discussing the earnings and the prices, maybe we should talk a little bit about kind of what's going on in the market now. I mean, it's, you know, the last six months, well, I mean, the last two years have been nuts for everybody. But the market the last six months, in particular, the last few months, has just been kind of crazy. And you know, Andrew and I talk a lot about this and the disconnect between the prices and what's actually going on with actual businesses that are being affected in the markets.

You had this great video a few days ago about SNAP and what happened to Snapchat, and they didn't even report earnings, and they got crushed. So any company that's reporting earnings right now it's probably going ah, you know if they got to do it, so what are your thoughts on kind of all the stuff that's going on?

B

**Brian**

14:58

I've been investing for eight seniors, and I invested through 2008 and 2008. And 2009 was crazy, right? I mean, I literally remember hearing news reports, I was listening to like NPR, and they're like, but the Dow fell 700 points today and being like, Oh, my God, like is, is capitalism ending, right? And then the Fed came out, and they poured all this money on the economy. I was like, Oh, great, the United States is going bankrupt.

And just how bleak the economic data was week after week, month after month, quarter after quarter. And then Warren Buffett came out and said; I'm by America I am. And I think that was a member of 2008. So, Warren Buffett was six months early on coming to like the bottom of the market, and then magically, in March 2009, the stock market bottomed, and it just went straight up from there. Even though you continued to read the news, the news was terrible. The news kept on being absolutely terrible. In March, April, May, and June, like all the months after the market bottomed, the news continues to be awful. So when I think about what's happening today, it reminds me of the environment of late 2008.

During that period, it didn't matter what any company said; your stock was going down period; unless you were reporting perfection and you had just an optimistic tone, your stock was still going down. And what we've seen over the last year, but really accelerated over the last six months, is that extreme fear and pessimism has infected investors' minds, broadly speaking, not about reason; by the way, investors are so fearful that their stock is going to fall tomorrow based on earnings that they try and sell now get ahead of it. That's the mindset that the market is certainly in. And there's so much uncertainty, there's so much visible uncertainty out there, right? What's going to happen with interest rates? I don't know, probably going up; what's gonna happen with inflation? I don't know. Probably going to go up. What's happened with the war in Ukraine in Russia? I don't know. Is it going to get better? Is it gonna get worse? I don't know what's gonna happen with supply chains? I don't know what's gonna happen with COVID? I don't know, right?

There are so many things that we know about that are uncertain out there. It makes sense why the markets are behaving the way they are; it makes sense why investors are fearful, but investors don't often realize that the world was very, very uncertain and fearful on September 10, 2011, the day before September 11, the world was uncertain. It's just that we didn't have those uncertainties so visible to us. And that's a point, by the way, that I stole from Warren Buffett, right. So the world is always uncertain. I think that when investors realize or have visibility into the uncertainty that they're facing, that's when they become filled with fear, especially when the recent market history is down.

That's when your mind starts playing massive trucks and yourself. And this is why investing is hard and challenging. You have to deal with these downturns in real-time; every downturn that we see, when we look at the long-term history, looks like a great buying opportunity. Living through it minute by minute is a completely new experience.

A

**Andrew**

17:59

Oh, yeah. Do you have any tips for somebody, maybe, particularly if they're new, they just jumped into the market. We've had some questions like this, where people have just started investing in the market, and they're like, my portfolio is down everything. Well, there are some practical tips that people can get past that and continue to have faith even though they've been beaten around the past couple of months.

B

**Brian**

18:22

So let me just say when I first started investing, I had no idea what I was doing, no idea at all, and I made bad investments left and right. It felt awful. Awful, it's it feels so awful to save money to put into the market to think you're doing a smart thing. And then the immediate reaction you get is, well, you lost it. Right, you're down on it. That is something that is just painful for so many investors to go through. However, I can say that those early losses that I took looking back were like the best tuition that I ever paid because it helped to develop the mindset about investing that I now have; if you are investing, first, just ask yourself, What are you investing for? What is the reason you're putting money into the stock market? Is it to get rich tomorrow, so you can buy a house? That's not the place that money should not be in the stock market.

So first, by really stepping back and saying what is the purpose of this capital if the purpose of this capital is to fund a retirement 20 3040 years from now, you should be rooting for lower prices, you should be rooting for the market to continue going down. That's a really hard thing to accept when the feedback that you're getting is This is dumb; this is dumb, I'm losing money. But that is the reality. That is what you should be rooting for. If you have that mindset for retirement, if you were investing because you wanted to fill in the blank stock or fill in the blank index to go up 50% To fund the purchase of a house or the purchase of a car or to pay off the debt that is gambling. And that is not the mindset that you should bring into the stock market. My favorite statistic on the s&p 500 that I've ever discovered is the

The odds of you having a positive real return, meaning beating inflation return over various holding periods, if you buy and sell the s&p 500 and hold it for a day, your odds of making money are like 51%. It's literally a coin flip. If you buy and hold the s&p 500 for 20 years, your odds of making money are 100%. The s&p 500 has gone up in real terms after accounting for inflation 100% of the time over a 20-year period. So when I learned that, I was like, the stock market actually isn't risky. What's risky is holding stocks for shorter than their intended time period. And that's an easy thing to say; it's an easy thing to say, Oh, I have a multi-year time horizon. But when you're putting money in the market, and you see that the price that you quoted goes down, down, down, it's an entirely different thing to actually live through. So my advice for people that are listening, going through some first time, is to take the time to write it down on a piece of paper.

Why are you investing? What is your time horizon? What kind of volatility Are you willing to endure along the way? That's hard to actually know until you actually endure volatility. But if you're investing for retirement today, and you have many, many decades ahead, this is a wonderful environment for you.

D

**Dave**

21:21

It is it hasn't; most of the money that is made in the market is made during these periods when there are downturns because you can buy a fantastic company, insert name here, and you know, hold it for 20 years, and you get it at a lower price. So it's when, like you're saying, when it goes up 100%, maybe not 100%. But if it goes up, you know, over 20 years, you know, you just win.

B

**Brian**

21:42

That's it; the tricky thing you just said is there is a great company; I'm a big fan, I love individual stock, investing myself, and the bulk of my net worth is in individual stocks. However, stock market declines hit different companies differently. Some companies, when their stocks go down, they become much better buys than other companies when their stocks go down.

They become riskier and riskier and riskier. And that is a principle that you have to know and understand why that is. If you're going to invest in individual stocks, I think the indices, the s&p 500, the Dow, and even the NASDAQ, when those go down, they become more compelling, more compelling, more compelling. Every time when an individual company when happens to an individual company, it's always company-specific, whether it's a good thing or it could potentially be a dangerous thing.

A

**Andrew**

22:29

So how do you differentiate between the two, you know, especially if you're starting out because I'm also an individual stock picker myself? And I've had to learn the hard way about the difference between a stock going down being a good discount and the stock going down being a falling knife?

B

**Brian**

22:50

The answer there is there are always nuances; it's always company-specific that you have to know the details. But broadly speaking, I think it's helpful to group companies into three broad, broad buckets. Bucket one is companies that are in the returning capital to shareholders phase. So there are big, established profit-gushing companies that have buybacks, are paying down debt, they're paying out dividends; those companies are typically strong, stable, and have huge cash flows. And when their stock price goes down, that's actually a good thing because the company can repurchase stock for investors at better and better prices.

The second group I would call self-funders; these are companies that aren't returning capital to shareholders but are completely financially stable; maybe they're on the verge of getting to profitability. Maybe they're close to that; maybe they're currently optimizing themselves for profitability, but they have no need for outside capital in order to execute their game plan for them. A stock market decline could be a great thing, or it could be bad, depending on what's happening in the markets to their customers. The final group of companies would be capital raisers; these are companies that are actively in search of capital by selling stock or raising debt.

When those companies' stocks go down, that's a big problem because suddenly, one method of raising capital for them is now not off the table. But it would be so diluted for them to raise capital with a lower stock price that it basically ruins the investing thesis. So if you think through those three categories, if a company is in the capital raising phase right now is awful. This is terrible, terrible news for those companies. If it's a big company like Apple, Microsoft Home Depot, and they're buying back their stock. What's happening with the stock prices is great news. So that's one mental model you have to think through; ask yourself, If a stock is falling, is it a capital raiser who you better have confidence that that cup is gonna get through, and if it's a capital returner, you should be rooting for lower prices. So that's just one way of discussing is this lower stock price good or bad?

A

**Andrew**

24:58

You just bottled up an MBA; you know so much of an MBA for people? I haven't heard that. Explain that simply was it was a really great explanation. Do you think there is a time to buy capital raisers? Is it something you do or advocate?

B

**Brian**

25:12

Oh, yes, I own several myself, again, a capital raiser by and large as a company that's coming public. It's become public because it needs capital. And it typically has a very high growth trajectory. But in order to fund that growth, it's going to be spending aggressively on sales and marketing research and development on overhead in order to build the infrastructure in order to take advantage of the opportunity that it sees ahead. For that reason, it's going to be reporting losses on the bottom line, sometimes for many, many years. In that case, if I'm going to be an investor in that company, I typically want to see a glide path that's realistic for that company to reach profitability within the next, say, one, two, or three years, or I have to have some huge faith that whatever special sauce the company has developed, can grow so rapidly that the market will reward it with a higher price.

However, I know going in that the odds are stacked against me of that investment being successful. For that reason, I severely limit my allocation to those companies and keep them a small part of my portfolio. Conversely, if I found a company I was going to invest in, like Apple today, I would have no fear about buying the stock and rooting for it to continue going lower. Because while the returns might not be great moving forward if, for example, the company's growth rate slows or it goes negative, the odds of that of Apple going bust are 00. Right? The company has so much cash and has so many customers around the world as so much optionality it's returning capital like crazy to shareholders. So I would allocate more capital to an apple than I would to a small money-losing company. So there's a part in your portfolio for both so long as you understand the risks and you allocate appropriately.

**Andrew**

26:57

And I did not pay you to say that because subscribers are gonna find out. When I released the June issue, there was a little spoiler alert for you there. I think that's really great advice. I'm gonna kind of put you on the spot here and ask, maybe just to give like a tangible example; I think a lot of people use Uber. So would you consider Uber kind of one of those capital raisers? And do you have an opinion on them? And if you don't have an opinion on them? Do you have another example of a capital raiser that we can kind of talk about, tell how that differentiates from someone like an Apple?

**Brian**

27:27

Yeah, I think Uber is a great example. Since Uber came public, its plan was to lose money rapidly in order to grow its user base to get its app more popular, sign up more drivers, expand to new geographies, roll out new services, like Uber Eats, to get into three, that is the thesis for that for Uber, and I haven't checked Uber's stock price at all. Actually, recently, I assume it hasn't done well, especially in this environment. But when I first looked at Uber as an investment, for me, it was a pass for a few reasons. First off, I knew that they were going to be in the capital raising mode for many, many years.

And if I'm going to take on the risk of investing in a company that I know is going to lose money for a long time, I want the potential reward to be massive; I want to be able to earn 510 x returns. I don't know the number. But when Uber came public, I'm pretty sure it was like $50 billion; companies need the really high 80s or something like that. So if I'm gonna buy at that IPO, I have to believe that Uber could be a $50 billion company. I'm assuming a $500 billion company someday for me to earn a 10x return. How realistic is that? Boy, there are very, very few companies that are worth $500 billion. So that was one thing too. And I think there's a harder thing for people to wrap their heads around is the existential threat to Uber that self-driving cars represent. So I'm an investor in Tesla, and say what you will about Elon Musk and Elon Musk's timelines; I think it's inevitable that self-driving cars are here.

Once self-driving cars are here, why do we need Uber? That, to me, is a massive, relatively near-term existential threat to Uber's business. So given, given the size, the money-losing, and an existential threat, Uber, for me, has been a is a pass nearly forever. It's okay. I hope Uber turns out to be a great investment. It's just not for me; I would rather focus on companies that I have more conviction in that I don't see an existential threat or that are smaller and are closer to profitability.

A

**Andrew**

29:30

So let's say somebody is listening to this; like three years in the future, Uber's happened to drop like 90% or something ridiculous. I obviously don't have a crystal ball. I'm just trying to make up a scenario here. But let's say that hurdle is kind of passed where it's been so beaten up that maybe it can easily be 10x from wherever it's at. And then let's say they've actually proven a way to become an important part of the although, you know, the automated driving ecosystem with that change that idea or maybe cause you to take another look?

B

**Brian**

30:03

Yeah, sure, the business is dynamic, right? Businesses, the quality of businesses change rapidly, rapidly over time. If Uber stock was down 90%, let's say it was worth $10 billion, or something along those lines, if the company was at profitability, if its balance sheet was in great shape, and let's say it proved out that self-driving cars were actually an opportunity for and not a threat. Would I change my mind?

Sure. I do like to change my mind at that point. This is why there's no shame in taking a look at a company and passing on it with your first glance, and then just putting it on your watch list and potentially investing in it. Later, businesses change. And the great thing is great companies actually become less risky over time. When Tesla first came public, holy cow, was it risky. I mean, you needed everything to go right for that company to work out. Tesla today is nearly debt-free and has almost $20 billion in cash, is free cash flow positive, has Giga factories galore coming online, has new models going, and its brand name has become synonymous with quality. It also has a completely different business model than many of its direct competitors. Investing in Tesla today is so much less risky than it was five years ago, ten years ago; still risky, by the way, but less risky than it was.

A

**Andrew**

31:21

Yeah, a good example of that is I didn't read this book, but I heard about it. And Elon Musk's autobiography, he talks about he talked to the other biographer about how close to the edge Tesla got to completely failing. Like it was a matter of if this deal didn't go through. To your point about capital raising. If they weren't able to raise that capital, Tesla probably would have gone bankrupt. And so the other scenario where it was like, either this investment was worth nothing, or it was worth this crazy amount that it's worth today. Just it's tough to navigate when you talk about companies like that.

B

**Brian**

31:59

Yeah. And what's cool is I saw this firsthand. In 2008, the company I was working for was that medical device company that's now worth, I don't know, 10 $12 billion, something like that. We were in the capital raising phase all the way up until 2018. Like so, the company was founded in 2000. It was in the capital raising phase literally for 18 years. And that included throughout 2008 and 2009. When I was working there, we went public. I remember this very vividly. We went public in 2006. At $15 per share, within six months, our stock was at 27. Okay, so we have a 90% gain from the IPO for pretty much no reason, by the way, no reason. It just went up that much. Right? We were a better company, but we weren't 90% better, then came 2008. And our stock fell from 27 to under 390 something percent loss.

And this was when during that time, capital markets were closed; there was no way to wait to raise debt, and there were no good equity options. So the company actually had to go through layoffs during that period in order to basically survive with the cash that it had. Now gradually, the equity markets opened back up, and they were able to raise capital once the stock price recovered. And they were on to take on some convertible debt. So they got through it. And if you bought anytime, from 12 to 27 to three, you've got a multi-bagger on your hand. But I can tell you when you are living through that and your stock and your stock option that companies have fallen 90%. That was tough.

D

**Dave**

33:36

That would be tough. I don't know. It's times like those that you wonder how do people stay in the market? So how can we help people stay in the market? Yeah, that's

**B**

**Brian**

33:43

a tricky thing, I would say there are several things you can do. The first is to financially prepare yourself for what you're going to have to deal with. If you're going to invest in the market. It's so easy to look at past volatility and say all invest through that. It's an entirely different thing when you're living through it. And you're dealing with the news, and you're dealing with the psychology of other investors at the time to saying I'll stick with this. So first is to financially prepare yourself. I'm a huge fan of optimizing your personal balance sheet first before you make any investments in the market.

For me, that means multiple sources of income, a high savings rate, zero debt, zero debt of any time six-month emergency fund, if you can do that, which isn't easy. That's not easy, but if you can do that, man, does it make dealing with volatility a lot easier. So that's a thing one is to make sure your personal finances are rock solid to study market history. If you study market history or individual stock history, you'll realize that huge market downturn are normal. Like that is how markets function. The s&p 500, I think, dropped from

66% peak to trough from 2007 to 2009. The NASDAQ dropped like 70 or 80% from 2000 to two 1002. That was a huge drop in 1987 from 80 to 8273 to 74. Like, if you look back at history, it's normal for markets to go haywire every now and again. So get your personal finances, order, study market history, and then know what you own. And what's your thesis? Is it for owning it?

I think if you can do those three things, it doesn't make dealing with market downturns easy.

D

**Dave**

35:26

It makes it easy, or so; what are your thoughts on people checking their portfolios? Daily, hourly? You have the ticker; scroll across the screen all day long. What are your thoughts on that kind of idea?

B

**Brian**

35:35

First off, I understand it. When I first started investing, I invested in air quotes. By the way, when I first started being aware and having money in the stock market, I guess I should qualify; I check stock prices all the time; if I had a smartphone with me at the time, I would have been glued to that thing, seeing how much I lost or how much I made that day. Here's an unfortunate truth checking stock prices doesn't count as investing research. Right? What you're what stock price movements measure on any given day is volatility. And it measures randomness. In fact, when people in my real life come up to me, and they're like, Hey, Brian, we have the market today. I'm like, I don't know.

And that confuses so many people because they're like, wait for a second, I thought you were into investing. I pay attention to the market when something huge is going on, like like when the NASDAQ falls 3% to 2%. I'm aware of that when the NASDAQ market is up to half a percent or down half a percent. That's like a nothing burger. I mean, I don't even pay attention to my portfolio that often. The reason is that I'm an actual investor; I buy companies that I think can substantially grow their revenue margins and profits over a 1,3,5 or 10-year timeline. The only way that you can judge whether or not those companies are doing that is to look at their earnings reports. Those come out every 90 days, right? Occasionally, there's news within their within that period. That's thesis altering; it could be good news or bad news. But whenever I own a stock, and I see that that stock is down huge, so many of them are right now, the first thing I do is I go back to the most recent earnings report, and I say what happened? Oh, revenue was up, margins were up, they're closer to profitability, or they produce a cashflow thesis on track. So you get 90 days like the mindset that I have with those.

And I really think that owning companies for long periods of time will teach you a couple of things. One that you're wrong a lot. I'm wrong, at least half the time. Never feels good to be wrong. But that's the nature of investing. And to that, it's normal for even the greatest companies, the greatest investments out there, to have periods where their stocks just get whacked. Just like absolutely Max Berkshire Hathaway doesn't get any bigger, boring, stable, or that Berkshire Hathaway that stocks fell 50%, I think five times in Buffett's Buffett's tenure, so that if you can't handle that you shouldn't be in the market. Y

A

**Andrew**

38:04

Yeah, that's a good point. Yeah, that's, that's really great advice. And I think it's something that is easy for us to forget until we live through it. And so, if you can internalize these lessons beforehand, it sure does help a lot. I mean, what's that? You quote go? have a plan until you get punched in the mouth?

B

**Brian**

38:20

Everyone has a plan, Tyson. Yeah, everyone has a plan to get punched in the face, which is the greatest investing quote of all time for sure.

A

**Andrew**

38:28

This is why people should buy your book because when they do get punched in the face, they will have the basics and the fundamentals internalized. I'm big on preparing yourself equipping yourself; while times are good to prepare yourself for when you get punched in the face, you're still gonna get punched in the face, but at least you can try to make a reaction. In this case, a lot of people might be getting punched in the face now. So that's even more motivation and reason to put the app down rather than, you know, to pick up a book rather than pick up your app. I guess any parting words for the audience about the book? Anything you feel like we didn't cover? Anything in that regard?

B

**Brian**

39:08

One quick analogy I think is helpful here. I myself am a nervous flier. I'm just not good on planes. I actually looked at my kids; what are my plans with them to be like? I'm gonna be okay. Right. What has helped me deal with lying is, first off, studying just the statistics. I know. Logically, planes are the safest form of transportation. It's not even close to how safe they are. And once you learn that and internalize that, it helps to something that's really helped me is to study actually how planes work. Why do planes go up in the sky? Like it's like magic from the outside, right? But once you understand Newton's laws, Bernoulli's principle of the airfoil, and that helps me again logically understand.

And then finally, I've been on planes; one of my favorite plane brands to fly is United. And this has been historically not because United's like magic or anything like that; there's an ordinary man. But one thing that I liked is that they let you they were the one airline where you can actually plug your headphones in, and you can listen to the pilots talking to each other. And like, whatever evolved, whatever the plane started going, I would tune to that channel. And they would be like, yeah, there's some light chop here, we're gonna take it to 35,000 feet to get this, like, yes, they understand that this sucks. And I want this plane to be smooth again, but I understand. So for me, understanding the logic of how planes work helps to calm my fears whenever we're going through turbulence, which against the pilots is no big deal. Like that's normal, to me, the passenger, I hate turbulence so much.

But that really helps me that I logically understood it. The goal for my book was the exact same thing, teach people the principles that keep the stock market in the air so that when turbulence comes, you can understand the reason the stock market was in the stock market went up in the first place, so plying helping the logical part of your brain, at least fight back against the emotional part of your brain.

D

**Dave**

41:00

That's an awesome analogy. And I think that makes a lot of sense. My fiance is terrified of flying for the exact same reason you are, I'm going to actually tell her those stories, so maybe it'll help her get over some of that fear. We really, really, really enjoyed the conversation today; this has been a lot of fun. And I know that our listeners are gonna get a lot of good wording out of this. So if people want to learn more about what you got going on, and you got a lot of things going on, where can they find more about Brian,

B

**Brian**

41:24

The easiest place to connect with me is on Twitter; I'm @BrianFeroldi for all the if individual stock investing interests you at all, my YouTube channel, we kind of my partner and me, Brian stuff will break down how we think about and analyze individual businesses. So those are the two places to check with me.

D

**Dave**

41:40

Okay, as a free frequent flyer of both of those, no pun intended, frequent flyer of both of those resources. They are they're great. Check them out. There's a lot of great education there and a lot of great learning, and it's some fun, too. So Brian, thank you again very much for joining us today. We really, really appreciate you taking the time to come talk to us today and everyone out there, go out there and invest with a margin of safety emphasis on the safety. Have a great week, and we'll talk to you all next week.

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