# Why Some Growth Stocks Are Crashing Now

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I love this podcast because it crushes your dreams and getting rich quick. They actually got me into reading stats for anything you're tuned in to the Investing for Beginners podcast led by Andrew Sather and Dave Ahern with a step-by-step premium investing guide for beginners. Your path to financial freedom starts now.

[DAVE] All right, folks, welcome to Investing for Beginners podcast tonight; Andrew and I are going to take a little bit of a break from our normal programming and our normal schedule. And we're going to talk to you about some things that we've seen in the market. We've been talking a little bit about this amongst ourselves, and we thought we would maybe shine a light on some things that we've been seeing over a couple of weeks slash month that we think are kind of pertinent to what's going on in the markets right now and could have a bearing on things to come. And first of all, this is not a doom and gloom kind of episode. We are not prognosticating or predicting that the sky is falling. We just want to talk to you about some things that could have an impact on your investments and maybe how you could deal with some of those.

And also to understand, give you an understanding of some of the things that are that we see happening. And again, not predictions. We are not PR prognosticators. We can't; we have no special crystal ball and can't see into the future. But these are just some things that we're observing. And we want to kind of pass those along to you and kind of help educate you a little bit on some of these things.

So, Andrew, what the, what are we going to talk about tonight?

[ANDREW] So there have been some huge losses in the stock market with several different stocks. And it's interesting because the way you put it to me, I thought it was funny, kind of reminds us of the whole pandemic thing where you had the economy and parts of it did really well.

And other parts completely got devastated. That's kind of what you're seeing in the stock market right now. Certain small pockets of stocks are getting racked while the rest of the market goes to all-time highs. And so there's some positives and some negatives to this, but I think it's not one of those things we want to necessarily turn a blind eye to, because I think you will start to see more and more headlines about this possible, or, you know, this could be just another, another week that just goes by.

And then we're back to where we were two weeks ago. If that's the case, you know, why not get educated? Why not try the sea, sift out the good from the bad from it. And then I think having some understanding,

cause I think we can have a little bit of insight into what's kind of driving some of this and if we can share some of that and give some ideas for how to navigate that or how to interpret it. I think it can be helpful.

So, I mean, to start, I mean, what were some of these companies that just completely fell off? Just to give a couple of names?

[DAVE] Oh boy. Yeah. There's been some big noise among some different companies. Probably, the first one that springs to mind is Zillow.

So yesterday, the company announced that they are abandoning the house flipping—market segment, business, whatever you want to put. However, you want to put that. I think they call it an I buy or something that they basically abandoned it. They realized that this was not a good business model for them. It's not the only thing that Zillow does, but they realized that this was not a good market for them. And they decided that they were going to exit that that market completely. And the stock dropped. Dramatically yesterday, 20, 25%. I believe it was. And yesterday, I got a tweet from a gentleman named Barry Schwartz. Who's a, a big, uh, big investor and really, really smart guy. And he outlined quite a few companies that are doing—a lot. So prior to yesterday, Zillow was down 67% from its highs, which were around January or so of this year. And so that those are big numbers. And today, Peloton announced their quarterly results, and they were disappointing, to say the least, and the market reacted to them very, very unfavorably. And the last I heard it, it dropped 27% after hours. So. And prior to this, the company was down almost 50% from its highs.

So now you're looking at 70 to 80% off of its highs and every single one of the companies that was mentioned in this tweet, Zillow, Robin hood. Peloton Pinterest, Wix zoom, Moderna all of these companies are anywhere from 40 to 80% off of their highs, and all of these companies, every single one of them was a company that would have thrived during COVID during the lockdowns. Those were peak operating conditions for all of these companies, because as we all remember, w uh, most of us were all locked up. We had nowhere to go. And so, a company like Pinterest would have been something that would have given you entertainment. And so, it made sense for the company to be trading at these elevated levels. Well, it may or may not have made sense. You could understand why people would bid the prices of these up because you're just seeing the revenues just skyrocket because somebody, you know, everybody was on a zoom call. Some people poor people were on five or six a day. And so it made sense that the revenues were, were skyrocketing, but it was also the best conditions ever for a company like Zoom to exist or to thrive during that period.

And now those conditions. And so the revenues, although are still pretty good. They're not anywhere near what they were six months ago, a year ago. And so, because of that, the company has taken a beating in the stock market. And I'm not saying Zoom's a bad company, nowhere near it. And at some point, it may be a good investment, but at the prices that they're trading at that time, They were not, well, they could have been on the way up, but on the way down, not so much.

And so what you see, though, is you're starting to see these different pockets in the market that are starting to take pretty good beatings and. These are signs of things changing in some way, shape, or form. So here's the dichotomy. So this is what Andrew and I were talking about off air. So you're seeing companies like the ones I just mentioned that are all taking kind of a pretty good beating over the last six months or so. And. You're also seeing every single day the NASDAQ has, is experienced again, a new hire nine days in a row. So you got, you got other parts of the market that are going to the moon, but then you got other parts that are falling back to earth, hard, big time. And so you're starting to see these huge—swings in the market.

And one of the things that Andrew and I were talking about earlier today was these are signs that we might be on the other side of the mountain here. And we, you start seeing why. Swings in the market of companies

and prices 27% down 44% down for a company called Chegg, which is an education company. Two days ago was down 44% in one day. Those are not normal when they have to stop trading on a company like that. I think it was three or four times because it was hitting the breakers. Those are set for these automatic downs. We, you start seeing stuff like that. That's not normal. And that indicates that there's, that people are trying to get out of these trades because they realized that.

Good investments for them. And so I guess, what are your thoughts on some of these things I'm talking about?

[ANDREW] It is very interesting. Like you said, where you have the dichotomy of certain growth companies. A lot of them, you can correct me if I'm wrong. Cause I don't, I don't follow these names very closely, but a lot of them don't make profits. A lot of them just really. Play that whole, let me, let me try to grow my sales as fast as possible and still burn a lot of cash. On the flip side, you have some of the more kind of; I put in air quotes, traditional growth names, like the Fang stocks, the big tech stocks, these stocks, which actually have earnings and cash flow.

They are also growing at very high rates, but they do not see their share prices crash. I mean, Facebook had a little bit of, they had like a little bump, you know when they were going through some turbulence last week, but it's not like these huge gashes that some of the names you're talking about or seeing here, I think, you know, whatever side of the mountain we're on, whatever, whatever a mountain really is. It's. The what, whatever, whatever you expect the future to look like, it might not look like what you think. And so we could very much be on the other side of a mountain that rhymes with a lot of different cycles we've seen, or we could very well see stocks like this continue to crash. At the same time, other stocks continue to do well.

Like there's nothing to say. If I look at the earnings calls of these, of a lot of great companies right now, something like 70 or 80% of them are beating earnings expectations. The economy seems to be humming along really, really well. These companies are flushed with cash; there's cash everywhere. And so it's possible that you continue to see these.

These falling stars, if you will, while at the same time, the rest of the world goes on and does very, very well. And there's, there are several factors to that, but I really don't want to run over the fact that these to buy the dip on these. I mean, that's a scary proposition because if you, if you talked about Zillow's an example, I don't have the exact numbers, but there was something like, they went down with 20%, and then they went down another 35%.

So these are huge numbers. I mean, they might not sound big, but they take like a 70% drawdown. Like you mentioned, if you have a stock that you bought and it lost 70% of its value, you have to more than triple your money from there. Just to break even, just to break even more than triple. So even let us say, you know, we weren't that bad. Let's say we lost 50%. Fiber or something, you lost 50% on that company. You'd have to double just to break.

[DAVE] Wow.

[ANDREW] If we look at the history of the stock market, the average is somewhere like 10% a year. So, by the way, to get to double would be a hundred percent. So you're talking about ten years of average returns to get back to a double, and you lost that amount of money in like a week or two.

Right? So that's a very scary thing. And that's why I think it's important not to take these lightly and not to think. Ooh, you know, maybe there's value here because there's a reason why. A lot of these companies fell a

lot, and they could fall a lot more, and that can be devastating. And you can talk about wiping off years of compounding, and that's why you stay away from expensive companies.

[DAVE] Yeah, that's exactly what, and it also highlights what Andrew was talking about, the fundamentals of the company, of these companies, some of them weren't all that great. And, but because of the nature of so many different psychological ideas and how we think about things, a lot of these companies were bid up that really had no right to it.

And again, I'm not trying to bash the companies, but I want to think about the choices that we make when we invest in different companies. And you look at a company like Google, for example, the company. Is the third or fourth-largest company in the United States, by market cap is monstrously huge. And that company is still growing revenues at 30, 40, 50% quarter over quarter, year over year right now.

And like Andrew was saying, it's, it's beyond flush with cash, and this is not an endorsement to go out and buy Google. But I think it's more of a; it doesn't you have to think about each individual company on its own and yes. Make generalities and say that because three or four other companies are falling, that the whole market is going bad, or the economy is going bad.

A lot of times, these situations are islands upon themselves, and you have to think about them. In solo, I guess, in solo focus and you can't compare Peloton results to Microsoft's results, even though they're both air quote growth companies, the way that both businesses are operating and just the basic function of what they do and what's and how they're doing it and how they're being run or are vastly different.

So the results that you see in the market it doesn't always equate. So I'm going to go back to our friends Benjamin Graham and Warren Buffett. So both of them have, have kind of stated this maybe in different ways, but in the short term, a stock market is a voting machine, air go, a company like Peloton or Pinterest or zoom. So people voted on those and bid them. Huge because of how they anticipated the companies would do. But in the long run, the stock market is a weighing machine. And that means that over time, over a longer period of time, more than six months or more than just a year, the market is going to reward companies that are performing on their business merits.

Not on whatever the shiny new object is, and there's going to always go to be a shiny new object. It doesn't matter. It doesn't matter if it's 1950 or if it's 2020, there have always been shiny objects, and they're always will be. And that's part of the. That's part of the fun. And it's also part of the challenge of investing in the stock market is you have to learn to discern between the two and decide what kind of investor you want to be.

And one of the challenges to investing in the voting companies, types of companies is you have to know when to get out, because if you don't, then you're going to be one of those people sitting on that 70 to 70% loss of a company like a Peloton. And I know that if I bought it. And I lost 70% of my value.

Let's say, you know, I think it was trading. I looked earlier; it was trading at its high around 167 bucks a share to hold my feet to the fire. Imagine if you were some person if you were an investor and you bought it at 155, and now it's sitting. 60 that'd be a horrible feeling. I would not wish that on anybody; that would just be a terrible, terrible feeling because now you've got two choices.

Now you have the choice of, do I sell what I got left and just take the loss, or do I hang onto it? Hoping that it'll get back to where it was one day. But like Andrew was saying, a 50% loss means that you have to. So you have to do a, you, you have to get back a hundred percent of where it was, and that's just to break even at 50% loss at a 60 or 70% loss, you're talking about a triple, and if it couldn't triple in the prime market

conditions for a company like that to succeed, it's not going to do it now. So, you know, those are the kinds of things you have to consider when you're investing. And I'm not saying that absolutely never buy us something like a Peloton.

That's not what I'm saying. What I am saying is that you have to realize what you're getting yourself into and what could be the possibilities of an outcome of investing, something like that. And this is a perfect example of something like that. And, you know, maybe we should kind of segue off some of this into.

Why do we think some of these things are happening?

[ANDREW] Yeah. Perfect. Let's take it lightly because I know it's easy to get deep into the economics, but on a basic level, you know, what's what would be a reasonable explanation.

[DAVE] I think for me, one of the things that I think is probably the most reasonable is the condition of the interest rates right now.

And without going into the nitty-gritty of all this, and as Andrew likes to say, given you a fire hose, try to keep it a little less fire Hosey if we can. So. The interest rates really help drive the value of different companies. So the easiest way to think about this is the interest rates represent, an investment returned that you could possibly get.

When we think about investing in a company, we have to think about kind of the time value of the money. And in basic terms, the dollar that I have now is worth less than it is going to be in five years—just kind of as a general idea. So think of a gallon of milk; that's always a common reference point. The gallon of milk you buy today, you're going to have to spend more to buy it in five years in the future and that, so that value, the money is worth something to you.

And when you invest, you're looking to try to make as much as you can. We all are. That's just, that's natural. Interest rates represent kind of, a minimum threshold, if you will, of what we're willing to invest in. Because the basic idea is is that the risk of investing in something five years from now, I want to at least blank amount, whatever that may be 5%, 10%, 35%, whatever your, whatever your you minimum of you'd like to make. And an interest rate kind of represents the minimum that you would want to make. And as those rates go up and down and they do, that represents. Kind of a minimum threshold of I'd be willing to invest in this if I could make at least this kind of idea.

And when interest rates start to go up, that means that investing in, in less air quote, risky stocks becomes, in theory, more or less, I guess, less attractive because now instead of investing in, you know, S a riskier stock. I can buy a bond, or I could put my money in a savings account and earn maybe not as great as I would for the risk, but I can earn.

A decent return by being safe and secure and not having to air quote gamble my money. And that's, I guess, in as simple as terms as I can think of what interest rates kind of represent. So what are your thoughts on that?

[ANDREW] Yeah, let me build off of that real quick, though. So the reason why interest rates are changing right now is because of what the Fed has very recently announced.

So we'll get into that too, but to think about why would interest rates and why were they hit in particular, the companies that we talked about and not seem to affect the rest of the market. And that kind of goes back to what Dave was saying about how the interest rates determined the value of money.

And so. It's hard to explain using the formulas or without, you know, being immersed in it. But if I were to think, okay, if I were to assume that there we are going to have zero interest rates forever, you know, then maybe I don't really mind giving, putting my money in an investment where the company is not even making any money right now.

So it's. You know, they could make money in the future, or they could not, but since interest rates are at zero, I don't really have many other options. And so maybe I'm more willing to go in this more speculative broth company with no, and it doesn't produce any cash flows right now. But if interest rates are up at like 2%, well, now all of a sudden, that kind of hurts to put your money in this company that doesn't generate any cash flow because you can.

Money and a 2% bond and that at least earn 2%. And so it's, it's not like that simple that black and white, but it's on a sliding scale. And somewhere in between, like the percentage of earning a return from a bond and having a company with no cash flows somewhere in the middle of that as having a company with cash flows.

And so companies that have cash flows now they are the depending on where interest rates go up or down. Cashflows today are more valuable, or if interest rates are low, cash flows today tend to not be as valuable because you're looking further to the future.

[DAVE] Yeah, exactly. That's, that's exactly right. And you, you have to, the easiest way to think about some of these things is you have to think about what the company is worth now and what the company could be worth in the future.

And how much am I willing to buy have this company now for that future value, it kind of goes back to. The prices that you see for the interest rates. And this is why interest rates become an issue because in the stock market, buying large, a lot of investors outside of you and me are thinking about what is the value of this.

And we all have different ideas of what something may be worth. There's always a base that you have to kind of reference it to, and interest rates represent that base. And so when the interest rates are at zero like they've been for quite some time now, and they've been really low since 2007, 2009 period.

And because of that, then, like Andrew was saying, we have west choices to have safer money, and it's easier to invest in the stock market than it is to put it in safer investments, like a savings account or a bond. And for those of you not familiar with what bonds are real quick, bonds are basically debt where I give money to a company, and they give me a promise to pay me back.

And I. A dividend or a payment for that every quarter. And so they pay me a percentage of an interest rate to give them the money. That's their enticement to give me the money. And they're very, they're generally considered safer than investing in stocks, but they don't give you as great a return as buying Apple. For example. But to kind of go back to what Andrew was talking about a little bit earlier with the cash flows and the profitability of the companies. And when you have a base rate that is zero or really close to zero, then investing in a company that maybe is not making as much money. We can argue about what we think it's worth.

But to most people, that's going to have more value in the future than a company that maybe is producing. You know, economic profit and is not as expensive relative. So, you know, I don't want to go too deep into

the weeds on this, but I think, I think you have to think about the interest rates is kind of the base of what you're willing to, to invest above and anything above that.

You're going to have to take some level of risk that you won't make as much money, not enough to talk about the risk of losing your money. It's more about the risk of not making what you think you could make. And. It kind of goes back to what you think this company is worth versus what this company is worth.

And when everything is zero, then there's no, there's no gauge of, you know, you could just, you could kind of, I guess, gamble on different things. And that's really what kind of that's what's really been driving the market over the last few years in particular.

[ANDREW] And last, the last thing on the interest rates, maybe we can talk on.

Why it seems like they're moving now or are expected, it seems that the market seems to be more reacting to its potential future movement now more than ever. So the more, the more you look at a company, and this is just kind of like finance valuation; this is how they, this is how they value companies in the stock market.

But basically. The more speculative these cash flows are. So like you take a company that doesn't generate any positive profit. The more that a company is like that, the more sensitive it is to the interest rate because the more the value is in the future. And so that's why they're getting affected harder because.

It seems that the expectation is that the long-term interest rates are going to move higher very soon. And so they are very sensitive to that. And that's why they're crashing so much where you might see other companies that have stable cash flows; how much a company with stable cash is worth is not as sensitive to changes in interest rates.

[DAVE] Yeah, exactly. Right. And to kind of expand on that with an example, A big reason why Tesla trades at the price that it does is that the investors that buy Tesla are anticipating that that company is going to dominate at some point is going to dominate the car industry. And so they're paying for that future domination now.

And so that's, that's an easy way to kind of put it in, in, in reference. Whereas if you look at a company like Coca-Cola, you could argue that its greatest days are in the past. And so that's why it trades at a much lower price point and. Value then a company like Tesla does. And you know, they're; obviously they're completely different markets, but that's really why a company like Tesla.

That's why people get so excited about it because they think they are anticipating that in the future, it's going to make this many cars and dominate the auto industry along with other things. And so they're paying for that dominance now. I think that helps illustrate some of that. So let's talk about it.

Let's talk about the interest rates a little bit and what the Fed and how that's kind of impacting it.

[ANDREW] So another tough thing to describe for beginners, I think, but the Fed doesn't say that these are what interest rates are, but they have a huge influence on them. And there are two kinds of interest rates are short-term and long-term.

And I think that can get confusing because particularly the news articles that. The last couple of days, depending on what the journalist is, writing them, if they're being clear, they should communicate that the short-term rate was left unchanged, but the long-term rate is being less influenced. So, so, you know,

somebody could read it and interpret it to say, oh, they kept rates the same, but that's not really what they did because they're changing long-term rates.

And the long-term rates are tied to the short-term rates and how they move, kind of like a pendulum. It could have ripple effects on the stock market and the economy. And so the way that they, and I promise I'll bring this full circle, but the way that they manipulate the long-term interest rates is by buying bonds.

And so, by buying bonds, they're able to keep the interest rate low. And so. What they do. What they have announced is that they're going to buy fewer bonds. They're calling it tapering. If you look at my haircut, I got some tapering. If you're listening on audio, I apologize. You won't be able to see that the tapering basically says, Hey, we used to, we used to buy $120 billion of bonds a month.

Now we're going to reduce that by like 12%. We're going to reduce it again by 25%. So what that's going to do is interest rates are—determined by supply and demand. And so, the more that something's in demand, the lower the interest rate is. And so that interest rate will start to creep if there are fewer buyers, and that's the expectation.

And so that kind of can tie into. If companies other in their growth stage. So the interest rates affect these companies in their growth stages because that affects how we do valuation, how a lot of the fi financial people in the industry do an evaluation, but it also can affect a company because how's the company going to grow, if they're not making.

[DAVE] Well, they have two choices. One is they can borrow money to try to use that to continue to grow, or they can sell equity in the company.

[ANDREW] And so talk about the borrowing money because that's pretty standard.

[DAVE] Yeah, so the borrowing, the borrowing money. So that means that the company, let's say that they need a hundred million dollars to fund a project.

That's going to help the company continue to grow, and by growing, I mean, grow the revenues, they buy different things that can help them perform better and produce more revenues. Yeah. Make a better widget, whatever that may be. So what they'll do is they'll go to the bond market and say, Hey, we want to buy, we want to sell a hundred million dollars worth of bonds for two people.

And in the hopes, you know, and offer an interest rate to entice people to buy this bond. And as interest rates go up, that means that now they have to spend more money. To entice people to buy these bonds. So let's say that the, you know, when the interest rates are zero, you know, they can, they can go out there, and they can say, Hey, buy our bond at 1%.

Well, that's better than nothing. And if it's a great company like Microsoft, I saw that Microsoft did make a bond offering for less than 1% not too long ago. And that's just insane. But when a company, like when a company. It may not be very profitable. They also probably won't have the greatest credit rating, which means that too, for a bond agency, to give them a bond rating and for people to buy this bond, they want to see some safety because that's the whole point of investing in something like a bond, as opposed to buying Bitcoin, you know, you're trading one for the other.

And so, To, to buy that bond. And let's say the company is not as stable as somebody like Microsoft, then they have to pay an even higher interest rate. And where this really starts to affect the companies is kind of

on twofold. Number one, it makes them, makes it harder for them to raise money because people are maybe less likely to invest in that because it's risky.

And number two is the interest that they have to pay. That's the money that they pay you. And I have to buy this bond that comes out of their income. And so that reduces the amount of profit that the company makes. And the higher that interest payment gets. It's like an interest payment for your house.

Suppose you have to pay more for your mortgage than you did a year ago, which Impacts your bottom line. The same thing happens with a business. It's the same, same idea. And so as those rates go up, borrowings, the debt that the company takes on, it starts to get more expensive, and it puts the company more at risk of bankruptcy at some point, defaulting on the loan of bankruptcy and all kinds of bad stuff.

So that's where some of these things can start to have an impact. So let's talk about it.

[ANDREW] Okay. I did want to mention something about it, and I'm not a bond expert. I'm not a bond market expert by any stretch, but I just want to point out that it's possible that if, if the Fed tapers, I mean they're buying less of these bonds, that's taking a huge buyer out of the bond market.

And so, again, I'm not a bond market expert, but if. Bonds are being bought because the Fed's backing off. How does that ripple effect into all the other, not just our bonds, like the government bonds, that's what the ones they buy with all the corporate bonds. Like you're talking about these companies that issue bonds, and they're trying to raise money.

And so if, you know, if they have, and that's an F again, I'm not trying to say that anything's going to happen in the future. But if they have trouble raising money and certainly if there's more trouble to raise money than there was trouble six months ago, then how valuable, you know, how much more risky did this company actually just become?

And so if the smart money is you like to put it if the smart money recognizes that. Then it kind of makes sense that once they see the tide turn because this is, this is the first time that the Fed has said, okay, we will finally taper. And that happened like two days ago. And so if that, you know, that's the signal now, all of a sudden these companies that used to be able to have, it seemed like easy money.

Now my run into that difficulty now there's uncertainty now their valuations come down and then if you're trying to raise money through equity now, It's like, it's one of those things that reinforce on itself. I can't remember what the term it makes; it just builds on itself. And now we have a worst than the worst thing situation.

And then now the crashes that you see in some of these stocks start to make a little bit more sense when you put all those pieces together.

[DAVE] Yeah, exactly. So when we're talking about equity, what that really means is that the company is trying to sell stocks, sell his shares on the open market to try to raise money and.

If the value of that company is starting to fall, like you're starting to see, then it becomes less attractive for people to buy that that equity. And so that's where this kind of raising money becomes a kind of a double-edged sword because now the stock, the bond market is getting more expensive, and it's harder for them to raise money because it's riskier.

And they have to offer a higher interest rate to entice people to invest in those bonds. The flip side of that is that the stock price has fallen enough or too much. And now nobody wants to buy the stock because they think the company is in trouble. And so it becomes, it becomes a double-edged sword.

And what Andrew was referencing with the smart money was, you know, it's not just you and I that are buying these things. These are there huge corporations out there that have, you know, armies of analysts looking at all these things. And a big portion of companies that you see traded on a stock market. A lot of them are in these ETFs or a man, or are the biggest owners are companies like Vanguard and BlackRock.

And when a company like Vanguard that owns 17% of a particular company decides to move out of that position, that has a big impact, what happens to the price of that company. And so that's why we, you, start seeing some of these things that could indicate that. Some of these institutional investors think that maybe these companies are maybe not going to be the best investments going forward, and it could be a sign of other things to come.

And so that's why when you start seeing some of these pockets of things happening, it doesn't; it doesn't indicate that the bottom is falling out. It doesn't indicate that the market is going to crash tomorrow, but those are all signs of things that there could be movement in other directions. And you have to kind of; you have to be cognizant of it and pay attention a little bit to it.

It doesn't mean you have to analyze it, you know, endlessly. That's what Andrew and I are here for to help you with this. But it does mean that you have. At least to understand kind of on a high level of the basics of it. So it's one thing you see one company fall, but when you start, when you see 10 or 20 companies fall like this, that's a sign that's that there's something going on underneath.

And all these things that we're talking about are signs of those things that could be possibly going on that are.

[ANDREW] So I love the way you put all of that; it provides a really great perspective. So what's the alternative now, you know, so we talked about this double-edged sword. We talked about the interest rates.

It all sounds really scary and really uncertain, but if we bring it back around and we kind of flip it to the other side, there are lots of other companies that don't have to deal with these kinds of difficulties if you have, you know, any of the companies that are some of the biggest ones right now, Microsoft, Google, Apple Facebook.

These companies could care less if interest rates go to 10% tomorrow, you know? Well, we're talking about a lot of, a lot of the big, very popular companies. If you look at their balance sheets, they're debt-free, I mean, they might have some debt, and they borrow, but they have a lot of them have more cash than they have debt.

And then they're just using that to kind of. Run the business. So we have very, very safe companies. We have companies who have these products and services that people are still gonna use regardless of what happens in the stock market, regardless of what happens in the economy. And so I think, you know, rain or shine, you kind of want to be in a lot of these companies anyways, but they do also fall into that same phenomenon of their prices are going to move depending on how interest rates go. And so that's why, you know, it's, it's hard to kind of always describe, but when you, when you really want to invest with a margin of safety emphasis on the safety, you want to buy companies. When they're cheaper, when their stock prices are lower, compared to how much cash they can produce.

And the price-earnings ratio can kind of be a shortcut to help. Most of the way, their price to free cash flows and other one more, you could use a DCF as I do, but those are the kinds of concepts. And so when you pay better prices for companies and you pay more for their cashflow now versus their cashflow 20 years in the future, the impacts of these kinds of things are much, much less.

And so, you know, not to say that you're going to be crash-resistant. If the market goes to their complete crap, Everything will crash, Don't worry.

But at the same token, you know, what a 10% crash might be for one of the best companies we've ever seen could be a 90% crash for some of these more speculative, zero cashflow companies and the rest difference. And the difference to your portfolio is not even near the same ballpark. So that's why you want a position in your portfolio, really rain or shine into some of these best businesses, trying to get them at the breasts prices that you can. So if interest rates do move against you and then their prices do come down, it doesn't affect you as badly.

And, you know, that's really the best thing that you can do and kind of leave. The speculating on the future and, uh, the fretting and worrying about what the Feds are going to do. You can leave that to the rest of the world; you could just focus on really finding those businesses that will produce cash flow, rain, or shine, then buying them at a good price.

[DAVE] Yeah, that's exactly right. It really comes down to looking at the fundamentals of the company and understanding how it is that it operates, what it does to make money, and that it is making money, and it's consistently making money, and it has a competitive advantage in whatever field it is in regards to continuing to make that money, rain or shine.

And one of the things that I think is if you really are interested in this and you really want to look at, I guess, a microcosm of how some of these ideas can work. If you think about what happened in March of 2020, and you look at some of the companies that came out of that, surprisingly well, Even though the stock prices fell.

Sometimes the stock market is not connected to economic reality and. I want to give you exhibit a Microsoft is a perfect example of this. If you looked at, if you looked at the stock price of Microsoft in March of 2020, the company lost, I don't know, 60 or 70 bucks in a month. And in March in price, it dropped to run an old 140 bucks or so a share somewhere, not a price point.

If you looked at the latest earnings, as the financials of the company, the revenues operating profit, the balance sheet, any of those kinds of just general numbers, it would have looked exactly the same as it did the quarter before and the quarter following. But the stock price dropped a whole bunch because overall, the market kinda freaked out.

We all did. I mean, nobody knew what was coming. It was a scary time, and it's understandable, but that really goes to the point of it really comes down to the economics of the company. The stock price is not always connected to the economic reality of what's going on with the company. And so you have to think about that when you're looking at buying great companies that are going to perform well for you now and into the future.

If you can find those great companies and buy them at a really good price, you're going to do great. And it doesn't mean that you're not going to see a time where you're going to look at. Google or Microsoft or whoever and not see it down 20, 30, 40% at a certain period. But the thing you have to keep in mind and remember, and try to take a deep breath and calm yourself a little bit, is to look at the economic conditions of the company removed from what's happening in the stock market, because just because the overall market is

down 20, 30, 40%, does it mean that Microsoft is down 20 or 30, 40%. Now that being said, if the economic conditions of the company have changed such that. It's not worth that price anymore. Then do you have other decisions to make?

But I think the bigger, the bigger thing is to always kind of think of the underlying, underlying economic fundamentals of what's going on with the business and how it's performing in the market that it's in irrespective of the price that's in the market. Because again, going back to it in the short term, it's a, it's voting machine in the long term it's a weighing machine. So if Microsoft does what it's supposed to do and it doesn't, well. Over a long period of time.

The stock price is going to represent that. The flip side of that. If they don't do what they're supposed to do and they don't do it well over a period of time, the stock bar is going to represent that there's a lot of smart people in the stock market. It's not perfect, but there were a lot of smart people in there. And eventually, it's going to get noticed, and that's going to be get represented.

So that's something you can kind of do to kind of. Set yourself up now and into the future and a better job than you do, setting yourself up now to anticipate those things, the less you're going to have to stress about it in the future because I don't know about you, Andrew, but I know in March of 2020, I was scared.

I'm most scared more personally than I was about what was going on with my folio because I felt like I had pretty darn good companies. And so that helped me not like freak out. So I don't know. What were your thoughts?

[ANDREW] Yeah, I mean, I thought it was all well, well said very beautifully said I looked back at March 2020. And I was stuck piling food on it. Just like everybody else,

[DAVE] Toilet paper?

[ANDREW] Maybe I cannot confirm or deny I, but you know, and it's something that's kind of boring and doesn't get talked about a lot. We try to talk about a lot of dollar-cost averaging. That was, that was something where, you know, I didn't know what was going on with the market.

And like I said, I was stockpiling for. There are all kinds of crazy thoughts going on in my head, like what could happen to the world and what can happen in the business. But I did have one habit that I've been doing for many years, and I continue to do it. And it was dollar-cost average. What that means is you just put a set amount of money in the market every month.

And so, you know, I didn't do, I didn't buy the perfect companies, my bother grocer, which probably wasn't the best idea, but I also bought a great technology company at the time cognizant, and that one's done super well. And so. Able to take advantage of those prices. And probably most importantly, I didn't freak, panic, sell out of anything else.

And so I didn't realize any of those, those losses. And like you said, it's, that's kind of, that's what happens when you're confident, and you know that I've got some good businesses under my belt that you don't have to worry about what everybody else is wearing. 'cause, you know, this difference between the Wayne machine and the voting machine, and you know that that's, what's going to drive your performance over the long-term.

And so you can worry about other things like having enough food and toilet paper instead of worrying about your portfolio.

[DAVE] Yeah, exactly. I think the last thing that I want to kind of leave people with an idea of, when you think about investing in the stock market, sometimes we get—obsessed or concerned with how other people are doing compared to how we're doing.

We can't control what other people do and how they do it. You have to focus on what's going on inside your own four walls. That's something I learned in the restaurant business. I can't worry about the restaurant across the street or down the street. I have to worry about it. What we're doing inside our business and we have to control.

That's all I can control is how well we performed with the people that come and sit down and have dinner with us. And I can't control what happens across the street deck. You know, I control what's inside my house. And so the investment choices that you make, you can only control the investment choices that you make.

And you can; you need to choose companies that help you sleep well at night, whatever that may be. And. If you do that, you know, up or down market shine market down, uh, you'll come out fine. And it's more about the end result than what's happening today. And I think about the story of the rabbit and the hair, you know, the rabbit starts out fast as blowing the turtle away, and eventually, the turtle wins because slow and steady wins that race.

And so that's really what we want to think about when our besting, uh, if you look back at the history of, in the investing stock market, All the greatest investors were all people that bought companies and held them for a long period of time or were consistent investors for long periods of time. There is not one single market timer listed anywhere; they don't exist.

So the greatest investors in history, we're not market timers. Don't; it's just not; it's not the way to long-term. So that's I guess my, my last parting thought,

[ANDREW] I think they're perfect. Parting thoughts.

[DAVE] Okay. All right. Sounds good. All right. Well, with that, folks, we are going to wrap up our discussion for tonight.

Thank you guys for listening. We hope you enjoyed our conversation again, not doom and gloom. This is just an educational idea. So you guys can kind of think about some of the things that are going on right now. So without any further ado, I'm going to go ahead and sign us off—you guys. Go out there and invest with a margin of safety emphasis on the safety.

Have a great week. We'll talk to you all next week!

and or financial advice from a licensed professional review, our full disclaimer@einvestingforbeginners.com.