The Importance of Moats with Mark Lamonica of Morningstar

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D

Dave

0:00

All right, folks, welcome to investing for beginners Podcast. Today we have a special guest. We have somebody joining us from Down Under from all the way from Sydney, Australia. We have Mark Lamonica, who is the director of individual research at Morningstar. He is here to talk to us about the craziness in the markets and some other fun stuff. So, Mark, thank you for joining us today. We really appreciate it. I guess let's start talking about what's going on in the market. That should occupy us for a little bit.

M

Mark

0:26

Yeah, no, exactly. And thank you very much for having me really appreciate it. So yeah, it's obviously been a, it's been an interesting time. You know, I think I probably don't have to tell people what's, what's going on? Because it is on the front page of every newspaper. But yeah, I mean, I think if we go back to the fourth quarter of last year, we sort of started seeing some of the most speculative shares. So really small-cap growth, shares start to dive. And, you know, these were really companies that had no fundamentals, right, had no earnings. And that is spread. So you know, starting in, starting in kind of January, we started to see that creep up, it got into mid-cap growth, and then it got into large-cap growth.

And, you know, based on the run that we've gone on in the past couple of years, it's there's large-cap growth companies that makeup so much of the big indexes. So especially if we sit there and look at the s&p 500, and that's sort of brought the market down. And, you know, I will say that I think what has happened so far has really been a valuation-driven bear market. You know, we haven't really seen yet, and I think everyone's thinking about it, but we haven't really seen yet huge falls in earnings. We really just saw the market reprice shares are at the end of the day. That's really what's happened market looked at the valuation levels and has adjusted them. And we'll sort of seeing what happens next. I mean, I'm a little bit worried about this next stage. But that's what we've seen so far.

A

Andrew

1:51

It is interesting, like, is the tail wagging the dog? Or is the dog wagging the tail? Today, as we record this, we heard the Fed talk about raising by 75 basis points, which is point seven 5%. Now, by the time this goes live, it'll probably be old news. And we'll be talking about the next rate hike. But you know, are our interest rate moves something that investors should be worried about? Is it interest rate plus earnings coming down that they should be worried about? Or should they be focusing on something completely outside of what we see in the news headlines?

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Mark.

2:27

Yeah, let's go back and talk about what's happened. So basically, you know, we had central banks around the world saying it was going to be years before interest rates were going up. And when that changed, I think, you know, the markets out there and the way that we value shares, right, we look at cash flows, and we project cash flows in the future, and we discount them back to the present. And that discount rate is, and people use different things. But you know, it is driven by interest rates.

So that's where we saw that repricing of valuation levels now; that is anticipated, right? The market is forward-looking. But I think the issue we have now with interest rates is the reason; obviously, they're getting raised to slow the economy. And so that's, I think, the next concern, and I sort of see the next leg down, and I do think the market will keep falling. I think the next leg down will be driven by earnings. Right? So you know, if we sit there, simplistically and look at a price-to-earnings ratio, we've seen that price change, earnings haven't really been hit yet. And, you know, I think sort of the two problems we're going to run into if we look at things from the earnings side is, you know, number one, we need to realize that if you go back over the past decade, a lot of the earnings growth that we've seen, has been driven by a margin expansion. So basically, when we talk about margin, a company sells goods and services, and then they have a bunch of different expenses, and then something comes out the bottom right earnings.

And so we haven't really seen earnings growth from selling a lot more. We haven't seen huge revenue growth, and we're looking at the aggregate here. But what we have seen is margin expansion. And so, you know, that margin expansion has come from different places like number one; obviously, there were the Trump tax cuts. So that is one-way corporate tax cuts. That's one way we've seen margin expansion. We've also seen it from a sort of the continued effects of globalization. And you know, at the end of the day, we've seen offshoring and outsourcing, we've seen sort of a lot of efficiency in supply chains, right? This sort of just-in-time notion of, you're building a car, and all the goods show up that day, you build a car, and that's great. You don't carry inventory. And a lot of that is unwinding. Right? Like if we sit there and look at everything that's going on, we're not going to get another tax card. You know, I don't think anywhere around the world governments are saddled with a ton of debt from all of the stimulus during COVID. So we're not getting a tax card. A lot of the globalization piece is unwinding.

Right like we hear about this disruption in supply chains, and that it's temporary, but you know, I think a lot of countries got caught off guard during COVID When they couldn't get things, and there are big companies and countries are talking about, Okay, now we're going to onshore things again and try to be a little more independent. Obviously, there's a continued trade war with China, there's, you know, Russia, like this globalization stories kind of falling apart. So, you know, my concern is, and also, obviously, inflation, right, you know, we don't know, it's very difficult to manage a business with high inflation. And so I think we're going to start to see that margin compression. And, you know, we'll see what happens with the economy, that's just on the revenue side, we'll see what happens with that. But I think we're gonna start to see this margin compression because historically, it's just been way higher than we've ever seen in history, right? If you go back and look at the margin levels like they should revert to the mean, I think that's going to be our problem.

A

Andrew

5:56

So you say that you think the markets gonna go down, it's quite likely that it goes down in the next month? So follow? Do you think that means individual investors and average investors should be selling? What kind of mindset should they be approaching? The next three months?

M

Mark

6:13

Yeah, I mean, I think, listen, it's an easy story to sit there. And, you know, this is, you know, me saying, I think the markets gonna go down is not exactly a bold prediction at this point. But you know, I think it's all about your goals. And, you know, I know personally that, you know, my goals are far away; I have not been selling over the past couple of years; I've built up more cash. So I can't say I've been putting any more money in. So the savings that I've had I built up in cash. I turned it off, and this is me; personally, this has nothing to do with Morningstar; I have turned off all the dividend reinvestment plans and my accounts for the past couple of years. So I've been building up cash.

So you know, I wouldn't say it's necessarily a time to buy. But also, you know, I haven't been selling things. Right. You know, I've to stink the other day that this is the third bear market I've gone through since I started investing. Fourth, if you count that COVID, one, which didn't really count, because there was a month, but, you know, I think it's focusing on your goals. And it's figuring out, you know, as an investor, what are you comfortable actually buying? And, you know, I think that's an underappreciated part of investing is that, you know, the biggest advantage, the biggest piece of edge if we want to use sort of financial terms because he's an edge we have as individual investors are the ability to have a long term outlook. And in order to do that, you need to be comfortable; you need to own things you're comfortable with and not sell when they fall. So I think that's kind of my advice, figure out what kind of investor you are, figure out what you're comfortable with,

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Andrew

7:44

Kind of taking that approach of, you know, looking at the landscape, and obviously, as you said, margins are historically high, it's possible they could revert to the mean, and we have inflationary pressures, all these pressures that could eat at profits. Are there certain sectors or kinds of companies that are potentially not as impacted as, as it may sound like, are going to be impacted in aggregate?

M

Mark

8:13

Yeah, I mean, what's the easy? The easy answer to that? And the answer everyone has is, you know, in inflationary times, commodities do very well. So if you start looking at resource shares, and you know, sitting here in Australia, there are a lot of resource shares. So, you know, we started to look at miners and oil producers, like, traditionally, they have done really well, you know, what I would say, is kind of taking a step back, you know, we need to think about what are the companies and when we talk about margin, what are the companies that are going to be able to protect that? And so, you know, who has pricing power and Morningstar? You know, what we look at is a moat, and, you know, it's a term that Buffett popularized, and, you know, it's actually a rating that our analysts give, and those are companies with sustainable competitive advantages.

So I think, you know, those are the companies that over time will do well, and, you know, it's not, you know, if we look at sort of the craziness that's happened in the past couple of years, you know, those have not been the companies that have done particularly well, not the ones that have been popular with investors because, you know, that sustainable competitive advantage, it accrues over time. And, you know, I think those are the companies that should be able to protect their margin should be able to pass on those costs to consumers and should come out, should come through this thing. Okay.

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Dave

9:33

Yeah, that's a great point. So how should individual investors look for companies that have those kinds of sustainable advantages? Or most, you know, besides morning stars, you know, great charts, you know, as somebody that's just looking for work in a turn to find these kinds of companies, what kinds of things would you suggest?

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Mark

9:51

Yeah, so, you know, it's, it's an interesting one. So, you know, number one, I think it is, and we believe in Morningstar and fundamental research, sort of the approach we take And you know what I will say that investing, there are lots of different approaches that work, right sort of finding the one that you're comfortable at. So, fundamental research is really it's studying the companies; it's studying the dynamics of the industry they operate in. And I know that sort of a vague answer, but I think it really understands the company, it understands their competitors, understanding that competitive environment, and then you actually see it when you look at financial statements as well; I think that's an important thing to say.

And there are kind of two different ways that you see it, like margin is certainly one. So you know, going back there and looking at and going back ten years, right? You know, this obviously, needs to be a long-term study, go back and look at the margin; are they able to maintain and potentially expand their margin? That can be an indication that they do have a moat, and the other place it shows up is the return on invested capital? So basically, what return on invested capital is measuring is, you know, when a business reinvests in itself, what return are they getting? That is what a CEO's job is, is to sit there and allocate capital. So the capital that they are putting back into the business, what return are they getting, and what we want to see from a moat perspective, and sorry for using all this financial jargon, but what we want to see is we want to see a return on invested capital over the long term that is higher than their cost of capital. So very simply what that means if we think about if we're running a small business, that we want to go borrow money at 5%, and we want to invest it in a company and earn 10%, right, and over time, that difference, and that's obviously a pretty big difference.

But over time, that difference is what accrues to shareholders. And what we see, in general, if we think about capitalism, what is capitalism, it is competition. And what that means is, it's supposed to benefit us as a consumer, right? So companies are out there. And they compete in two ways. They try to build a better product, which benefits us because we get better stuff. And also, they're going to compete on price. So that benefits are us that we get stuff for cheaper. Now, that's really good for us as consumers; it's really bad for companies. So sort of that constant competition, investing in creating better products and services and then lowering prices as much as possible. So that's not great for a company.

So generally, what companies will do is they will drive down that return on invested capital until it hits their cost of capital, right. And then it's just as a company that sort of self-perpetuating, right, they borrow at 5%; they invest in they earn 5%. And you know, that's fine, they'll stay in business. And that's great. But we want companies that are investing and actually able to fend off that competition and earn a higher return.

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Dave

12:51

Yeah, I was reading something recently that somebody suggested looking for companies that kind of wean into these hard times. In other words, they hire more people, invest more money; they acquire more businesses just looking to take advantage of the downturn in their competition. And they can benefit from that. And it may be bloodied them a little bit in the short term, but in the long term, they'll come out ahead.

M

Mark

13:16

Yeah, no, absolutely. And I think that there's a lot of junk out there. You know, if you sit there and you look at, you know, the most speculative parts of the market have done well since that kind of COVID market crash. And these are companies that don't make any money. And, you know, they we've got companies that don't make any money, we've got companies that are heavily reliant on borrowing money, the sort of this notion of these zombie companies that are just kind of going out there and just borrowing money. And that's how we're raising it through venture capital and everything else. It's just shoveling money out to people like those are the companies that are in trouble. But yeah, I think you're right, that there are certainly opportunities out there in companies that do have served their interests are on the financial position, and that is looking ten years down the road and not trying to pay their employees for the next couple of years. Those are the companies that will do well, and they can take advantage of these opportunities.

D

Dave

14:08

Yeah, the thing that I think is interesting about the stock market is that the when we go through situations like this, where we have a bear market, or the startings of a bear market, everybody kind of runs for the hills, and when we go to the store, we all want to buy stuff on sale, but for whatever reason, we don't want to buy things on sale, and the stock market and I've never quite understood that.

M

Mark

14:32

Yeah, yeah, no, I think it's a mentality. You know, I think one thing I would warn against is, you know, we've sort of had this notion of buy the dip and you know, buy the dip certainly works, but it's a bull market trading strategy, right like if we're in a bull market, which basically means you are continuing to hit new highs now doesn't go straight up. Buy the dip works great. The right market goes down. 5% you buy, Then it'll hit another high.

But I think people have been doing that. And we've seen it a lot sort of with retail investors globally in Australia, in the US where, you know, people have gotten into this mentality, and they've kept buying the dip. So I just would caution against that, like, it's very important to have a plan. And you know, your plan, I don't think people should deviate from their plan, but sort of this notion that you are going to go against your plan and keep shoveling money. And every time the market goes down, 2% probably isn't a great approach.

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Andrew

15:31

You mentioned how, you know, investors really piled into this kind of more speculative names that aren't making profits. So one great way to kind of avoid that is to go for the higher return on invested capital companies. But something about investors is they just can't kind of keep themselves away from the light. So how do you get investors to, you know, whether it's thinking about the cost of capital, whether it returns on invested capital?

How do you get investors to move away from the big promise of these fast-growing companies and move more towards the companies that are generating these high returns and high profits but maybe aren't growing as fast? So it's not as exciting? How can we get investors to flip that mentality?

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Mark

16:18

I think there are a couple of different things to think about. Number one, I think that we need to realize that, you know, as humans, we are attracted to narratives. And, you know, certainly, in the investing world, we're attracted to narratives. And you know, if you look at ARC innovation, for example, right, that is a narrative. Now, I think the narrative is BS, for lack of a better way to describe it. But that is, but that is a narrative, right? That's very attractive to investors, like we are investing in cutting-edge companies that are going to change the world. Well, that doesn't make them good investments.

So I think we need to realize that a good story and even a lot of growth does not make a good investment. And you know, there are examples throughout history. And you know, one of the kinds of easy ones, there are railroads, and, you know, we forget, like how big of innovation railroads were. And they were horrible investments, but they changed the world. There was tremendous growth. But there was so much capital that rushed into that, that, as an investor, they all went out of business. Now, what did that benefit? Well, it actually benefited the companies that use the railroads. You know, just like in a more recent example, and sort of similar examples, we go back to the.com. Crash, you know, it was the Internet, right? So there's the Internet; what is the Internet run on?

So we need fiber optic cables, too, you know, run the Internet and spread the Internet? Well, where's WorldCom? And where's global crossing? They went out of business; the Internet didn't go out of business. But all the money that was invested there, the glut of basically capacity led to all these companies now, you know, you wouldn't have YouTube, we wouldn't be doing this, we're looking at each other on video. I'm in Australia; we wouldn't be doing this if there wasn't a ton of bandwidth. And if it was really cheap, like, so, I think we just have to be careful about those narratives.

And, you know, one of my favorite books is, you know, Jeremy Siegel, wrote a couple of different books, but you know, stocks for the long run, and basically went back and looked at what the best returning shares and I think he wrote this, I think, in the early 2000s, but either way, he looked at a historical period from like, 1925 on and looked at what company did the best if we look at the US stock market, and it was Philip Morris. And, you know, we sit there, and we look at, and Philip Morris, of course, is, and it's split into a couple of companies now, but they make cigarettes. And you know, if we go back, and we think about that period, from like, 1925, to the early 2000s, we go back and look at that period, we think about everything that happens, you know, like, you know, the automobile is gotten mass adopted, we obviously had semiconductors invented and computers and the Internet and all this stuff. And, you know, smoking actually peaked in the US in the early 60s.

Like, we obviously know everything that's happened with cigarettes, the government regulation, the lawsuits, and tax increases. So you know, that's a terrible narrative, but the company just sat there was very efficient paid high dividends, you know, those are the good investments, like boring over the long term that works. And so, I think we just have to be very wary of those narratives. And if somebody's telling you a story, and they're normally the people telling you these stories is somebody trying to sell you something. So they're trying to sell you a thematic ETF. They're trying to sell you a product. I will just be very wary of that.

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Andrew

19:45

That's really good advice and also a good book recommendation. I know that book is packed with charts and all these great statistics and information. So thank you for that. What are your thoughts on ETFs? I kind of peeked, and I saw on your podcast feed that Do you potentially have a controversial thing to say about ETFs? I'm gonna completely derail the rest of the conversation because I'm curious to hear what your thoughts are on ETFs.

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Mark

20:09

Yeah, I think the reason the reason we did; is I don't have a problem with ETFs per se. But you know, the reason we did that is that, you know, I think particularly a lot of the investors that have started investing since COVID, which is great, have, you know, been drawn to ETFs? And there are a lot of advantages to ETFs. You know, certainly, they are, for the most part, low cost, it is certainly easy to invest in them. I think the problem is, and a lot of this goes back to kind of Vanguard and looking at John Bogle and who hated ETFs, which is interesting, obviously, considering Vanguard is obviously a huge provider of ETFs.

You know, I think it's the ability to trade something all day means, of course, that people trade stuff all day. And you know, the example we used on our podcast, a little bit of a crude example, but it's like, if you are trying to, you know, stop using drugs, you probably shouldn't fill your house with drugs, right? That's not going to make you use drugs. But it doesn't make it any easier to quit. And I think ETFs encourage trading. And so once again, there's nothing wrong with that. There's nothing wrong with an ETF, but just realize that that ability to sit there now on your phone and trade ETFs while you're in line at the deli is not a good thing. So I think investors just need to take a step back and say, you know, why do I need to trade something all day? Like, if I look at a fund versus an ETF, like, you know, what is that ETF giving me that a fund isn't? It's giving me the ability to trade all day and just make sure you don't do it. So that's, I think all we are saying so more, more than talking about ETFs. Or just looking at investor behavior and things we know don't work, chasing returns doesn't work. Overtrading doesn't work. And you know, ETFs sort of encouraging all of that.

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Andrew

21:57

So I guess moving forward, I think we can kind of understand that a lot of the speculative names have been smacked buying the dips, probably a really bad idea on a lot of those names. You know, we've talked about companies with Moats. Can you give an example of maybe something in your portfolio? That is a good example of a strong moat with higher returns compared to its cost of capital? Yeah, so you know, bonus points. Sorry, bonus points if it's boring.

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Mark

22:27

Okay, well, I think this is kind of boring. So the big and I will say that you know, sort of during I have been building up this cache, and once again, this is all personal. Not Morningstar, you know; I have been building up this cache for several years now. And so I went into that COVID market drop with a fair amount of cash. And, you know, I probably should have invested more; I thought the market was going to keep going down. So, you know, take, obviously, my prediction earlier with the market going down with a grain of salt. But, you know, I bought one thing I bought was Constellation Brands.

And so basically, Constellation Brands sells beer, I mean, they, they do a couple of other things as well, they've got some wine, and some sort of, not great liquor brands are really they sell beer, and they sell Mexican beer. Right. So Corona is kind of their big one. But Modelo as well, Pacific go. And you know, at the end of the day, I think this is kind of a classic example of a moat from a brand. And, you know, I don't know what your personal feelings are about Corona. But you know, I don't think it's a great beer.

But you know, if we look at from a brand perspective, what they built, and I can say Corona to almost anyone in the world, and they're thinking about sitting on a beach, being out on a boat, they built this incredible brand. And the interesting thing about Corona is that Corona is made with very cheap ingredients. There's no difference, right? Basically, between, you know, what goes into a Corona, and what goes into any other sort of mass-produced beer, but they sell it at a premium price. And so, you know, it's this amazing thing that if you sit there and like, take Bud Light, and all of a sudden, like Jack, the prices up by 40%, it's probably not going to do very well. But Corona has been able to do that. So you know, certainly when we look at the ingredients that go into beer, there are, of course, premium ingredients, and we see a lot of that in premium beers and, you know, different microbrews and everything else that has taken over but, you know, Corona has that ability to go in there and not spend a lot of money on ingredients, but sell at a premium price.

So, you know, I think that's an example. And there are all sorts of other reasons, right? There are kind of, you know, secular trends, of course, with the US and demographic shifts that certainly are benefiting them. But I think more than anything else; it's that brand that they've been able to build,

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Andrew

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you know, it kind of makes me think about something I also think is not talked about enough. I can't remember what the name is by now. It's like a specific bias, where let's say somebody would hear that as a potential stock idea opportunity, but you don't like Corona, the brand. And so we tend To think that our own preferences are similar to the way the rest of the world thinks. So we must think, Oh, the rest of the world thinks that Corona is a crappy brand. Obviously, the numbers play out in different ways. So I really wonder how many opportunities investors miss out on because they have this sphere of the world that says, Well, if I think that this is how a particular business or brand is, that must be how the rest of the world is too.

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Mark

25:24

Yeah, it's kind of like it's the Peter Lynch stuff, right? You know, that go by things that you use and like, and like, Hey, I, I occasionally drink Corona. I'm not saying that. I'm not saying that. I don't. But yeah, I mean, I think people maybe take that mentality a little far. You know, there's probably a bunch of people that got a Peloton bike during COVID and decided that this was the best investment ever and probably aren't too happy about that right now.

But yeah, I mean, I think we just have to kind of take a step back. And that's why, you know, taking a step back and looking at the fundamentals of a company, just like I don't think you should go out there and buy a, you know, company that produces beer, because you like the beer, but that could be a great investment, too. But take a step back and think about, you know, what is it like? What is it about that company? And you know, a lot of it, you know, we talk about if we want to keep using beer examples, like, yeah, there's a lot of good beers. So, you know, I don't think being a good beer is really going to do much for you. I think it's starting to look at sort of cost and brand and, you know, how does that flow into a financial statement?

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Andrew

26:26

So you mentioned margins, which is one thing people can look at for fundamentals; basically, how much revenue do you bring in? What are the costs? And then what's the profit, there are two other kinds of margin to, but we don't have to get into those, but, you know, also return on invested capital, but any other key fundamentals that people should look out for as a starting point to say, hey, these could be good indicators of companies with boats?

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Mark

26:52

Yeah, I mean, you know, I think those are probably the two main things I would look at for boats. But the other thing that I think is really important to look at is we have another rating at Morningstar called the uncertainty rating. And basically, you know, what that means is, as an analyst, and being an analyst, of course, is, I think, a pretty difficult thing because you are predicting the future, right? You know, the whole when you're analyzing a share as investors, we just need to be very cognizant that it does not matter what happened in the past, right, like those and financial statements, and everything else like that is all the past, we only look at those as clues into what's going to happen in the future. Right. So what an analyst or an investor is trying to do is predict the future.

And we do need to acknowledge, and this is where it's around finding a share that's right for you; we do need to acknowledge that the uncertainty around the future around these future cash flows is different for different companies. And so, you know, a simple example is that, you know, if I am a small-cap company, so I'm a new company, maybe I have one product, I don't have a long history, I'm trying to expand, that's very different than if I'm a large established company, right. So the differences are large established; companies generally would have more diverse product ranges, and they would generally sell in more markets. So local conditions wouldn't affect them as much. They generally are more financially sound, so they can go out there and raise capital if something bad happens, right. And we saw that during COVID, saw companies went back and raised capital because they didn't know how they were going to get through this. So I think that doesn't make large-cap investing or small-cap investing. That's just one example. That doesn't make either one good or bad.

But it could make it good or bad for you. Right? So you know, how much uncertainty Do you want around future cash flows? If I were Coca-Cola, I could tell you this, Coke is not going to sell half as much Coke next year or double as much Coke next year, right? You know, that's not going to happen. So it's easy. Like, if I'm trying to sit there and predict the future, we're talking maybe a couple of percentage revenue up or down, right? Each year, if I'm some small-cap biotech company that has a drug that's up for FDA approval, that's a very different range of outcomes.

And it's just making sure, and both can be, you know, great investments. So it's just making sure you're comfortable with that and knowing what you're investing in. So I think a lot of people were investing in very speculative shares, right? The fact that you know, something like half of Russell 3000 growth shares was unprofitable or are unprofitable. You know, maybe that's a good or bad thing, like, but not all those companies are gonna make it

Andrew

That those are all really, really good points, you do have to be careful with these unprofitable companies that could potentially go away. And investing is risk versus return. And oftentimes, you do have to take more risks to get more return, but you don't always have to. Dave, did you have anything else? Else.

Dave

Yeah, I wanted to talk to you a little bit about Nick's sleep. We mentioned off the air before we came on about what a great investor he is and kind of how unknown he is. And I think all this discussion about moats, I think is probably an appropriate time to maybe talk a little bit about next sleep, and some of the things that he advocated for and kind of his investment approach. I think it's something that would be beneficial for investors to hear.

Mark

Yeah, I think the interesting thing about him, and we did a podcast episode sort of looking at kind of lessons you can take from great investors, like, I think the interesting thing about him is, you know, we have a lot of advantages as individual investors and people don't think that we do, right people think about professionals, and yes, this is their job, there's a lot of things that professional investors generally can't do.

So generally, they can't take sort of an unconstrained look at the world, right, like, you know, and look for a different investment opportunity. So generally, they have a mandate; that mandate is generally pretty narrow that, okay, I'm a large-cap US investor. So if I see some huge opportunity in Europe, that's great, but I can't do that because that's not my mandate. And I think the interesting thing about him, and you know, something that, you know, we should all realize that the advantage of being an individual investor is that he had basically no mandate. And so he could invest in anything he wanted anywhere around the world. And that that is a very freeing thing, that there are going to be different opportunities. And you know, I don't, I certainly don't want people to think that you know, they should go out there and, you know, continually trade to go try to find these different opportunities.

But you know, you can invest there is value somewhere in the world at all times, right. And that doesn't mean selling everything you have and moving everything in there. But it does mean that if we took a sort of this wide view of opportunities, it could be a real advantage for us. So I think that's one of the things that sort of we like about him, and I'm talking about my podcast partner as well. So, you know, she's not here, but sort of the royal way. Yeah, I mean, I think that's one of the real things. I don't know; what about you guys? What are some of the things you liked about him?

Dave

I think the thing that I liked about there are multiple things. But everything that we kind of talked about today, as far as the fundamentals, those were guiding principles for him. And he really stuck to his guns and was able to invest in companies like Amazon and Costco. And in particular, Amazon, when it would go down to, you know, the 90% drop, he was able to stay with the company and continue to believe in what they were trying to do, based on the business model that they had, and where he thought the company was going. And I think that's one of the things that I really liked about his approach was that he was very determined to kind of buy and hold but not buy and hold stupidly, but buy and hold is such that he really believed in his convictions of what he thought he was buying, and really stuck to his guns with the fundamentals and where he thought the business is going. We were talking earlier about narratives and moats. And I think he was really good at sussing out what a moat for a particular company would be and kind of being able to forecast that into the future. And I think that's kind of a special skill that I think, you know, a rare few people have, you know, Buffett

included?

Mark

Yeah, and I think that that's, you know, I think the important thing that we were talking about earlier is, you know, that is having conviction in what you're doing. And, you know, it's this notion that there are all types of different approaches you can take to be a successful investor, but there's something that works for you. And, you know, I think a couple of things that you said is nature and the ability to hold things for the long term is a huge advantage we have as individual investors, and the only way you do that is if you're comfortable; right? So you know, in the example you talked about, like, you know, if a holding goes down 90% like you need to be very, very comfortable unsure of, you know, what you're investing into the hold through that. Right. It's very challenging, just from an emotional standpoint, more than anything else. Just stick with it. And that's, you know, that's believing in what you're investing in the approach you're taking.

Dave

Yeah, totally. Another thing that I really liked about him was his realization that what he was doing was not the end all be all of everything and that he and his partner, Zack, wrapped up the fund when they could have continued easily continued with what they were doing and made oodles of money. But he and his partner realized that there was more to life than just being the next Warren Buffett and wanted to call him that. And that's something that I admire that he was able to strike me as somebody that is really motivated by, I guess, a different set of rules than most of us as something that I admire.

Mark

Yeah. And I think kind of the investing lesson out of that is, you know, when we talk about the edge, when we talk about advantages that we have as individual investors, you know, one of them is sort of this notion of structural edge, right? It's all things that if I'm doing something professionally and you know, we can all think about our own careers if I'm doing something professionally, what are all the things that are going to drive my decision making, that isn't necessarily just purely about my job? Right? And number one, it's keeping your job. It's certainly paid, you know, and so, professional investors are obviously very well compensated, you know, a lot of them, despite what they say, are doing it because of that reason, and that's why they would continue on, right. And, you know, Buffett, I mean,

I think Buffett's a really interesting example, you know, when he wound up his first fund is, you know, was another sort of crazy bull market, he said, I don't understand what's going on anymore. So I'm just not going to do this, and sort of sold-out paid back as partners and, you know, didn't quit, because he obviously kept that, you know, little textile mill, Berkshire Hathaway, but basically said, I don't understand this anymore. So I'm walking away. Well, most investors, most professional investors, don't do that. Because you know, there's a mortgage to pay and their kids in private school and all sorts of different reasons that are not necessary, and they might sit there at night saying this is a terrible market, but then show up the next day and have to invest. So yeah, I think structural edges are an interesting one.

Dave

Yeah, I think the last thing that I think I really liked about him was that he really advocated understanding what it was you're buying, and don't buy if you don't, and he, you know, kind of the buffet idea of you don't have to swing at every pitch kind of thing. And I think that he was really choosy about the companies that you invest in. And that's something that I admire. I wish I could; I wish I could be more choosy that, you know like he was,

Mark

Yeah, it's that Buffett, like, circle of competence. Thing, right that like, I don't know, I see a lot of people invested in things that I know, they don't understand. I don't understand, you know, gets back to kind of what we were talking about earlier. It's like fundamental research like you need to understand the company and understand the industry and what is going to make them successful in order to, I think in order to be a successful investor.

Andrew

On Mark, this was a great conversation; so many lessons here for investors to think about and a great perspective on what's going on in the markets today and how we can kind of digest that and use that moving forward to make better investments. You have a great podcast and Investing Compass. People should go check it out. You have a lot of great episodes on there. And I've heard you talk about Nick's sleep on there. We mentioned you talked about ETFs, too. So definitely, people should check that out anywhere else; people can go online to find out more about what you got going on.

Mark

Yeah, I mean, I think at the end of the day, just Googling my name. I do publish a fair amount of articles on our website down in Australia, but of course, because it's the Internet, you can read it anywhere. So yeah, I would go look at that as well.

Dave

Okay, awesome. Well, again, Mark, we really, really do appreciate you getting up at six o'clock in the morning to come back. This was an awesome conversation, and we had a lot of fun, and I know our listeners will get a lot out of all of the wisdom that you were dropping with everything today. So thank you again for taking the time to come to join us, and everybody goes out there and invests with a margin of safety. Emphasis on the safety. Have a great week, and we'll talk to y'all next week.

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