



The Canadian Investor Podcast Share Their Investment Checklist

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[00:00:00] **Dave:** All right, folks. Welcome to Investing for Beginners podcast tonight. We have a very special episode. We have two of our friends from the [Canadian investor](#), the top Canadian investing show, and actually, one of the best-investing shows out there, period, wherever it is in the world.

So we have our friend Braden, who's been back a few times, and then we also have his partner, Simon Belanger, with us tonight. So they are here to talk to us about investing and share with us some of their wisdom. Hey guys, you want to say hello and tell us a little bit about what's going on.

[00:00:31] **Braden:** Dave, thanks for the intro and the kind words on the show. Thanks for having us on; like you said a yeah, me and Simon do host the Canadian investor podcast. It's everywhere you get your podcasts. We talk about Canadian businesses, US businesses, things we see in the market, and a happy chat tonight.

[00:00:50] **Simon:** Yeah. Yeah, exactly. Thanks for having us on really excited to be here. Obviously, I've listened to your podcast quite a few times, and of course, the times of Braden's been here excited to be around and talk about some of the things we look at when we look at specific companies.

[00:01:07] **Andrew:** Thanks for joining us. Why don't we dig into that?

So you guys recently did an episode that I thought was interesting on investment checklists and checklists are nice for investors. No matter if you're a beginner or advanced because it can ground you and make sure you're thinking of the different parts of buying the stock. So can either one of you start with what would be some of the first good ideas for somebody who is trying to build a checklist?

[00:01:35] **Simon:** Sure, I can start. The first thing I will definitely look at is probably the easiest thing to look at when I find a company. I will look at the market cap. So for those of you who are starting out, the market cap is basically what the value is. So you simply take the number of shares outstanding, and you multiply it by the share price, and then you get the market cap.

The reason why I like to look at the market cap is just an easy metric to quickly look at it. Yeah. Sense of how large the company is. Obviously, it may be different depending on if it's a company that said that more

value company versus a growth company. But for me, that's always the first thing I'll look out just to get a quick sense, whether I'm dealing with,

[00:02:15] **Andrew:** Yeah, it's a going, can you give ranges of this is a market cap that's big, this is smaller and what's somewhere that.

[00:02:21] **Simon:** Yeah, so that's really subjective. Honestly, if you look around, you'll see different types of people with different ranges. But I would say, for the most part, small-cap is probably anything under a couple of billion dollars. I would say that's probably what most people would agree on. You can get even smaller than that.

Under \$500 million. A lot of people consider that even micro-cap mid-caps, I would say probably 5 billion to. I don't know; it's a 30, 30 billion is probably the number I have in mind when it starts getting bigger than that, then you're starting to get in pretty large-cap businesses. And then Miss a lot of them, if I didn't mention the mega-cap.

So we're thinking here about the companies in my mind that are three, 400 billion-plus all the; obviously, the trillion-dollar club would fall into that as well. Yeah, there are obviously different types of businesses that will sound fall in different categories of those market caps.

[00:03:18] **Andrew:** So is there a range that you stay away from, or is there a range where your. Oh, this is my sweet spot, or is it just more, let me just get context on this business and then move forward.

[00:03:29] **Simon:** Yeah, I would say just getting context on the business, and I'm sure Braden, we'll talk a little bit about that. But he believes that a lot of big techs is undervalued, and you're looking here at businesses that are, pushing a trillion dollars in market cap and the reason.

Why they tend to be undervalued by a lot of people is because they're so growing so quickly. And so it's all relative. You can have a smaller company that would have a couple of billion-dollar in market cap, but it's really not growing at all. It's all relative. I think I'm not; I usually tend to stay away from the micro or nano caps.

So like anything under a couple hundred million dollars, I don't really invest in, but anything else, if I liked the business, I'm okay.

[00:04:12] **Braden:** Yeah, I think that's well put; when it comes to market cap, it's very arbitrary, but it's helpful to get some context around right out of the gate, the size of the business today on the stock market, what it's valued at and what the opportunity may be in the future.

Now, obviously, it can be inherent to safety based on the market cap. But now, you see companies push 2 trillion in market cap. I think Google's a few billion away from 2 trillion in market cap, Apple. Beyond that, Facebook's now worth over a trillion. And Amazon's 1.7 5 trillion in market cap.

So you can see that potentially, these companies are already so big. Can they get bigger in the future? So let's say. Metric to look at Ray out of the gate; when it comes to you, how big is the business we're dealing with? When we're going to start doing some research,

[00:05:08] **Andrew:** what would be the next step after we got a sense of, okay, this is how big the business is. What's the next good thing to look at

[00:05:15] **Braden:** for me? It's revenue growth for sure. It's the top line of the business for a reason. It is that sales number coming into the company. And look, it's fun to get all complicated with funny accounting and fancy numbers, like free cash flow, which is incredibly important.

But at the end of the day, I want to know if the company is growing that top line in sales, and that's really important. Are they growing it consistently over time? How, what are the numbers looking like recently quarter over quarter? And this is important, right? Because if you're running your own business, obviously, you want sales to integrate.

It is the top line of all cash flow that will come into the business is through that top line. So right out of the gate, I want to see some revenue growth.

[00:06:07] **Simon:** Yeah. Yeah. I think that's exactly what I would look at. The second thing is revenue growth. And keep in mind, too, depending on the type of business that you're looking at, you may want to average out that revenue growth.

If you're looking at more of a cyclical type of business, it doesn't mean it's a bad business. It's just a different type of business. But obviously, we love businesses that will consistently grow the top line. That's always a big plus.

[00:06:31] **Andrew:** I don't know if we've talked about this before, at least recently, Dave, you can cut costs, and that can increase earnings. We can only cut so much at a certain point. You have to increase revenue; otherwise, you're not going to get growth.

[00:06:46] **Dave:** Yeah, that's exactly right. Damodaran and talks about that all the time in his class that you can cut costs to a certain extent, but after that, you're done, you can, you still got to have the CEO and somebody to turn on the lights, and then, beyond that, you can't cut anymore.

Do you guys have, do you guys have a minimum that you look for revenue growth? If you see a company that you really like, but it's only growing at 4%, is that a, or are you looking for the 2030 and that, that kind of range.

[00:07:16] **Braden:** If it's, I like to think of it like 10% as a hurdle rate for revenue growth. And the reason for that is if it's below that, are you into that 4%? They're not really generating real inflation-adjusted value on the top line. And so, if they're able to demonstrate consistent ten-plus percent growth on the top line, that means that they're able to, at least at the minimum, flex some pricing power within the business.

And that's a key right away. If we're talking about investing in checklists, pricing power is everything. If you listen to our podcast, Simon, you'd have a, you'd be a millionaire. Every time I talked about a, if you got a dollar, every time I talked about pricing power, and it is so important, good businesses have pricing power.

[00:08:08] **Simon:** Yeah. Yeah, exactly. For me, I would say probably the threshold would be 5%, but 5% with an asterisk. It really has to be well-priced. So like the value, the price I'm paying for the business has to make a whole lot of sense. I'm looking at something like Braden said with 10%, plus then I'll be a bit more flexible on the price.

Obviously, I don't want to crazy valuation for just 10% growth, but you can give a little more flexibility in terms of the price you're paying if you're getting more growth.

[00:08:40] **Dave:** Awesome. So what's next after the revenue growth, where do we go from there?

[00:08:45] **Simon:** I can go ahead with the next one. One of the things I'll look at again, just to get a sense of what type of business I'm dealing with, is I'll just have a look if they're paying a dividend or not.

So that's a that's the one thing I'll look at. Just, is it paying a dividend? If so, what's the dividend yield and the payout ratio. Dividend yield. I think you've guys talked about it recently, and I know you have YouTube love dividends, and you have a lot of listeners that do as well. I love dividends too.

So I'll look at the dividend. I'll compare the yield—some of its peers in the industry. And I think that's really important to understand for people because a 5% yield for a REIT real estate investment trust or a pipeline, something like that. That's pretty normal. So that compared to its peers.

There are no red flags there, but if you have a 5% yield. On a tech company, then I have all kinds of alarms going in my head cause they hate that company paying 5%. They're probably not growing a lot. They're probably just trying to keep investors with that big yield, and the price has probably gone down quite a bit.

Therefore pushing up the yield and the payout ratio. That's really important because you want to make sure that dividend is actually sustainable. And I do love to look at the payout ratio, not based on earnings, but based on free cash flow because that's the actual money coming in and out of the company.

And that's a really good indicator because I think I can't remember the recent episode you were talking about. Was it Exxon, one of the oil companies, and you were saying that they were basically fueling the dividend with a debt. So you'd want to avoid that

[00:10:21] **Andrew:** the super key distinction to. Look at the difference between the big dividend yield with a tech company and one with, like you said, like a REIT and like companies can buy back stock too.

For the investors, you can take that next step to look at a payout ratio in the cash flow statement; you can have companies. I know it's weird to conceptualize until you've seen it, but you can have companies who are paying the same amount in dollars in a dividend, but third, the dividend you get as an investor is going up because they're buying back shares.

So that's a super cool thing to see too. And I like the distinction there between payout ratios. It's worth looking into.

[00:11:06] **Braden:** When it comes to a dip when it comes to dividends, for the most part, it doesn't get sucked into a dividend yield. This is the number one mistake I see from new investors.

I think this is by far the number one mistake. I see it all the time is going for high-yield tracks. This is a disaster waiting to happen for new investors. And I think it's a valuable lesson. So if you can learn it right away and avoid that, as soon as you possibly can, do not get sucked into high 9% plus dividend yields on companies that are basically deteriorating or melting ice cubes.

Now you can make the distinction between high-quality companies that pay high dividends. That's fine for someone who's seeking income. That makes a lot of sense, but if you have a long time horizon, Don't be messing around with ten plus percent dividend yields. They do exist; if you screen for them, you will find them.

And they're just a complete waste of time. If you have a long time horizon, we want to own good companies for the future and yield trap. Not something that I want to mess around with.

[00:12:27] **Dave:** Yeah. I would agree with that. I remember the Gamestop before everything happened in, in the early winter, they were putting out an eight to 10% dividend yield.

I know a lot of people; I saw a lot of people Seeking Alpha and Fintwit talking about GameStop because of their high dividend yield. But yeah, boy, that was a scary thing.

[00:12:46] **Simon:** Yeah, exactly. Braden, did you want to talk about a few other ones you're looking at?

[00:12:51] **Braden:** Yeah, sure. Happy to do that. The other thing that I would definitely look at just right out of the gate when it comes to a checklist is asking myself really simple questions and really simple questions.

One that requires zero accounting skills, zero investing skills. Zero really, even business know-how, which is this company obviously great. Can I explain in one or two sentences why this company is great, and it is going to be better in the future? And I know it seems so elementary and so simple, and that was one of the first things that one of the most sophisticated and best investors I know taught me when I sat down with him, is the people get lost in the weeds really quick and forget that we are trying to invest in companies that are going to be bigger, better, more profitable, have more market share, generate more cash, buyback, more stock and generate returns for shareholders in the future. And if I can't easily say that the company is going to be better in five, ten years.

That's really difficult to invest behind that because you are right away going into a company potentially facing structural decline industry headwinds. It's really difficult as an investor to put your capital behind that and be in sleep good at night. So I would say right off the gate is just asking myself really simple questions, and that will yield surprisingly good results.

[00:14:33] **Andrew:** I believe it. Unpack that just for a second because I think it's easy. I fall victim to it just like anybody else, but to look at a company and feel like you want to buy it already and then put those blinders on and not really consider that question. Is it great? Without you, don't have to give us an example of companies that aren't great, but what would be my guess whether examples of companies that are not great, other, you mentioned the industrial decline that's a super big one to avoid.

What would be some other examples?

[00:15:05] **Braden:** Yeah, it was what I was talking about before, which has pricing power, up here in Canada. If you look at the TSX, the Toronto stock exchange or you look at the standard and Poor's TSX index. So, in the US, you're looking at the S and P 500, which is a 500 company index here.

It's, it's a couple of hundred companies. Sometimes people use the TSX 60; it's a smaller market, so there's less security. So all we'll say is the TSX 60; if you own the TSX 60, you are heavily concentrated in banking materials and energy. Okay, so let's throw side banking cause the Canadian banks are actually an amazing profit center.

So let's look at energy and materials now, energy and materials; even if you are the best operator, you're the best well-capitalized. You have the safest balance sheet. You still do not have the ability to decide the price of your product. And that is a structural disadvantage. Let's look at a company like Apple.

They basically decide what the price of the iPhone is. Or this is what we were talking about earlier \$4,000 Mac MacBook pro I just bought, which seems just completely ridiculous. They decided what it was going to cost in a boardroom if you think about how advantageous that is compared to a company that has a pro.

And their product is priced based on what the market is willing to pay for it. Those two are not equal. So I think that's really important in terms of what a great company and what a not-so-good company looks like is, for the most part, even if you are a great capital allocator, you're the best in your industry.

Suppose you don't get to decide your own price, like energy and like materials. It makes it a lot more difficult.

[00:17:08] **Simon:** Yeah. And just to build on what Brayden said, a couple of industries for me that that would come to mind first like you just said oil because it's commodities, you really don't control that.

Tobacco. I know that. They look really good. We've talked about them on a recent episode as well. They pay a super high yield. It seems pretty sustainable, but you can make a case that over the long-term, it'll be a structural decline for the tobacco companies. Another one that comes to mind for me would be classic department stores.

Again, we can find any good operators in there, but not sure if they're going forward. So you can think about it. There are some businesses where you can see 5, 10, 15, 20 years that, Keep growing and growing year over year. And some that you are probably just thinking about it.

You have some serious questions, mark. If there, they'll still be alive five or ten years from now, and we both invest, and I'm pretty sure you guys are like that too. Are we invest in the really long-term, we're not looking at one or two years in the future. 5, 10, 15, 20 years. So I don't want to buy a business that I'm not sure if it's still going to be alive in five years, even though it may look very attractive from a value perspective.

[00:18:23] **Andrew:** I feel like you were over my shoulder, they, while I was writing an email, talking about why pricing power is better than commodity investing for the long-term, right? Because when you're looking at commodities, you have to buy and sell at the right time. And that's hard to market time, very hard to market time.

So those are both very good answers. So Braden, maybe I'll shoot back to you. Cause you mentioned, you had some really simple questions. So the question was, like this company. Great. So what would be another question?

[00:18:52] **Braden:** So when it comes to other simple questions is sometimes qualitative sometimes.

Quantitative what I mean, quantitative lets I'm talking about do they have proven growth of sales and free cash flow, which maybe we can dive into or how much you guys talk about free cash flow on the show here. But I think that we could maybe talk about that, and then we need to look at the moat when it comes to asking simple questions.

The moat is what defines a great company. It's their ability to keep their position in the market, fend off competitors, and ultimately grow without needing to invest a lot of capital. Like sometimes, these companies are so capital-light, just because of the nature of their moat and other people innovating on top of them and driving more business.

So I think that's some simple questions to ask yourself. Two is in the competitive landscape; how defensible, how durable is this company? And it doesn't have to be, like I said, something where you're a professional accountant, and you can look through the statements.

It's really more simple than that. It's can they be durable even as new competitors enter the space? Whether it's durable from regulators like the government or new competition. I think that's an important question to ask.

[00:20:25] **Andrew:** Those are great questions. We have touched on free cash flow here or there.

Be curious to your take; pretend I'm a nine-year-old girl or something. How would you explain free cash flow to me?

[00:20:36] **Braden:** Sure thing. Okay. Andrew's a nine-year-old girl, and we are talking free cash flow. Such free cash flow. How do I put this really simply? So what you are trying to do is you are trying to make up for some of the weird; I don't know if I can call them mistakes, but weird nuances in accounting.

So when you come up with what net com net income is, or profits or earnings, these are all the same things. So when it comes to net income, You are able to, with accounting, manipulate those numbers in a way that may not be a true representation of the actual cash being generated from the business.

So with free cash flow, you are adding back some of these non-cash items like amortization like depreciation. And then, so we're taking that out, and then we're going to add back that capital expenditure because those do really matter. For instance, if a company needs to invest in building a new plant, it'll go into capital expenditure.

And that doesn't make any sense; that cost matters in terms of then being able to grow their business and maintain their operations. So we need to put that cap-ex back in there really at the end of the day, without getting too into the accounting is we are trying to adjust for the amount of actual cash that the business is extracting from their operations.

And we ultimately came up with a number that everyone agreed on, which is called free cash flow. And it works, man. It is finance Nirvana if you will. And that's why people love it so much.

[00:22:29] **Andrew:** Yeah. I don't do an evaluation without looking at the free cash flow. So I liked the way you mentioned capital expenditure and CapEx, and maybe an example of that would be an energy company, and they have huge expenses that they have to make to say, we're going to drill a hole in the ground. That's going to make huge machinery costs. So that's your capital expenditures. Maybe give an example of a company that doesn't have huge capital expenditures like that, and so they have better free cash flow than an oil company would.

[00:23:03] **Braden:** Sure thing. If you listen to all my appearances, On the investing for beginners podcast, it wouldn't be a normal episode that we'll be talking about Visa and MasterCard.

It was just, was coming right also another thing I noticed Canadians call it Visa almost like with the Z and Americans call it Visa.

Yeah. Anyway, it's just a quick note there.

[00:23:24] **Andrew:** We need a referee. We need a neutral party here. Unfortunately,

[00:23:28] **Braden:** it's an American company, so it's you guys' win. It's definitely Visa. Anyways, we appreciate it. Yeah. So when it comes to Visa and MasterCard, the payments rails, these companies generate worldwide leading free cash flow margins. I'm talking about a sustained more than 40, sometimes 45% free cash flow margins because the business is really just so capital light. I was listening to an interview with a guy who joined the Visa team because Visa acquired his startup as a FinTech startup, and then he joined the Visa team.

And he's talking about on this podcast; he's What is everyone doing? This company runs itself. Like everyone can go to sleep and just not show up to work, everyone's on the golf course and Visa still making money Visa, still operating. It is a completely capital-light, low input, high mode business.

That is an example of a company generating tons of free cash flow because of all the costs when it comes to cap. The network's already built. So that's just a cash cow. And then, in terms of everything that goes into net income right off the top to those margins is insane. And it's just cash flowing machine.

If you look at the statements, it is men mind-bending the first time you see them.

[00:24:53] **Simon:** Yeah. Yeah, no, just to add that, I wasn't sure who was going to talk next. So I got it. I had a good moment there.

[00:25:00] **Andrew:** I figured Dave was going to say something cause I know he's

[00:25:03] **Braden:** in the Visa rabbit hole right now.

[00:25:05] **Dave:** Oh yes. I am very much in a rabbit hole. I sent Andrew a message today saying, Hey, I'm stuck in the FinTech hole, and I don't think I can get out. I've dug myself so deeply.

[00:25:14] **Simon:** It's crazy, definitely powerful businesses. And obviously. I think Braden and I like I won't shut up about free cash flow, and I'll be honest cause it's a really good metric because you'll see some companies that may have a negative net income, but then they have really good cashflow and vice versa.

You'll see companies that look profitable at first. And then we'll have negative free cash flow. And you have a company like Berkshire who likes, even Buffett says it, don't look at our net income. Cause it makes no sense because of the accounting principles where they have to either have unrealized gains or losses on their income statement, which puts everything out of whack.

So I think that's why it's a really important metric. But one other thing that I look at, and it's really. Two ways that are pretty easy to do for beginners; just have a look at bit how management conducts themselves. And two things I like to look at first are Glassdoor ratings. So Glassdoor for people is not aware.

It's just a website where employees rate their companies and their CEO and how happy they are at the company. So you always want to see those high ratings; obviously, make sure you have a pretty good sample size. If there's only 10, 10 people that went on there, it may be a, not very accurate, but if you have hundreds or thousands of ratings, that's always an indicator I like to look at, and I will always listen to at least three annual Recordings or annual earnings released earnings calls.

Yeah, it's my French. I was looking for the word, but I'll listen to at least three years of earnings calls, the annual learning scholars. Just to get a sense if that management is actually delivering on what they're promising. So the more you can listen to, whether it's 3, 4, 5, 6 years, that's good.

But Three, because I can get a good sense of management, is promising something, and they're delivering on it because you'll have management teams that will be promising things from year to year, and they're never delivering. So that's another thing that's pretty easy to do. You just put it on your phone, listen to it. And then you take notes while you're listening.

[00:27:19] **Dave:** Yeah, I love to do that. Now. One of the things that I've noticed, the more that I've listened to them, is you tend to trust the CEOs or the management of companies that don't sit there and read you a script for 45 minutes and then take 15 minutes of analyst calls.

It's okay; I could have just read that, guys. Sometimes when you see the people that just will answer questions, I think it was a Lockheed Martin; I think it did like a five-minute presentation, and then it opened it up. Analyst calls for the next hour. And I have found the companies that do that.

I'm more open to listening to what the CEO has to say because they're actually talking about things they know, as opposed to just reading something that God knows who wrote it.

[00:27:59] **Braden:** It's funny, you point that out because when it comes to the tone of voice you were talking about, or just their excitement around the company is at the beginning of every conference call earnings call, they will be an operator that says basically.

Don't Sue us type stuff. All the week-old jargon. And they have all the lawyer restock. If I don't hear a change of tone and voice when the CEO and the CFO start talking, I'm concerned. If it is still that same monotone voice, I'm like, get out of here. And that brings it to another thing. As we talk about this as well, Simon and I talk about this a lot, which is a founder-led public company is incredible.

The success rate of them. So good. They have skin in the game. They've built this company from the ground up. It's everything to them. Sometimes they don't even pay themselves. Like some of these guys are just cut from a different cloth when it comes to founder, led public companies. And the results speak for themselves.

Jeff Bezos marched his company to more than one and a half-trillion dollars before he stepped down. Mark Zuckerberg is 37, 36 years old, running a trillion-dollar company slacker. I know; get to work, Mark. And that is something I like to see when it when the founder is still running their company and still wakes up every day, excited to run the. You just have someone immediately in your court as a shareholder.

[00:29:35] **Dave:** Yeah. Think about Buffett's dude's 91 now, and he's still running Berkshire. I'm going to be happy if I can just get up from bed and walked on my couch when I'm 91. No kidding. And the dude is still running a \$500 billion company. It's just

[00:29:49] **Braden:** 96 are exactly.

[00:29:51] **Dave:** It's just, it's insane. Yeah, kudos to them. But I think that's a great point is looking for people, looking for companies that the founder is still got as, skin in the game and still got a hand in what's going on with the company.

[00:30:02] **Braden:** I noticed we haven't talked about valuation at all, and that seems to be lost these days, especially with new investors.

You can't blame them. They're caught up in the headlines. A lot of people started opening brokerage accounts, discount brokerages during the whole like GameStop thing. Or even during the pandemic, when people are sent home, there is a new wave of retail investors and self-directed investors, which I do not mean to have a negative sentiment around it.

It is amazing. I think that. Perfect. The days of people paying high management fees for mutual funds that underperformed the S and P 500 need to be gone like it's dinosaur 1 0 1. So it's a really good thing. But at the same time, it's really important that people remember that we're trying to buy.

Companies at least a fair price. This doesn't mean you're trying to buy companies at eight times earnings that are not growing; the balance sheet sucks. The, no, the management are revolving door. That's not the idea either, but being able to buy companies and pay a reasonable price for them.

And we can talk about maybe what a reasonable price looks like, but not overpaying is probably really important. Terry Smith from Fundsmith, one of them, one of the great investors he says, buy great companies. Don't overpay. Do nothing. And that's a really simple framework, and it works.

[00:31:38] **Andrew:** I'd be curious what you define as a fair price. I'm sure people are wondering too.

[00:31:44] **Simon:** Yeah. For a fair price, it's always relative. You have to, and we were talking about that earlier about revenue growth, and Braden said 10% kind of threshold.

And I said 5%, but again, that all comes down to valuation. So you have a company that's growing at 25 30% a year. It may be profitable. It may not be but if it's profitable, you may; paying 30, 40 times earnings is probably something that's pretty reasonable for a company that's growing that quickly.

And especially if their sales are growing that quickly. And so our earnings, but at the same time, if you have a company that you're paying a super high premium, and then we're seeing that, especially in the, since the pandemic started, we see these tech stocks, a lot of them have. Good businesses, I would say, but you see like 40, 50 times sales, 60 times sales, whatever the business is.

And they are growing very quickly. A lot of them are growing, doubling the top line every year. They're still potentially losing money, but we've talked about this on our podcast before. What happens with this high valuation is as soon as the growth slows down, they could still be growing very quickly.

But if you're growing at a hundred percent year over year, and then all of a sudden, it slows down to only 50%, if the valuation is sky-high, it's going to take a haircut, and it's really important to what just to build on what Braden was saying. We have a lot of new retail investors that started investing during the pandemic because people lost their jobs.

They were getting government checks. I know in the US you have that in Canada, we had similar programs for people, lost their jobs, and they started investing in essentially the market as a whole went up nonstop since the big drop in March of 2020. And I think that's a big word of caution for new investors listening here.

The markets don't always go up. If you've been investing for at least three, four, or five years you've seen 20, 30%, if not more, drops from your investments. And it's really important to pay that fair price. And I know,

Braden, you'll want to add a bit more on that with certain types of metrics you can look at when you want to pay a fair price.

[00:33:58] **Braden:** Yeah. So we talked about it. Don't pay too high of a multiple; what that means is not paying a high, multiple is a multiple of their sales or a multiple of their earnings or a multiple of their EBITDA. Those are various things you could look at. Don't, don't pay too high of a price to the, to their book value.

For instance. Obviously, this is all relative to how good the company is from a durability perspective. And how fast are they growing? A company that trades at 25 times earnings and isn't growing at all, I think, is crazy-expensive. Even if it's below the Shiller PE for the entire market. I still think it's expensive.

If you look at a company today, Like Google, which may be the best business on the entire planet you're looking at, or even Microsoft in this category, Amazon, as well as if you look at these companies, they are growing their top line and profits at rates like a small tech startup, Google reported like 64% revenue growth.

And like how, like it's a \$2 trillion company. It makes no sense. And it's trading at 22 times next year's earnings. That's not expensive. So it really does come down to compared to its growth compared to its business quality. And it's a rule of thumb thing. If you hear podcasts as a beginner, you're hearing people talk about investing, and they're talking about earnings multiples, the stocks 30 times PE, don't worry.

It'll come to you. Some of these are like the rule of thumbs. Now, when I hear a multiple on a stock, based on how fast it's growing, I can quickly in my head think of if it would be an investible idea; this stuff comes down to just practice and learning and just diving into managing your own money at the end of the day,

[00:36:00] **Andrew:** do those rules of thumbs change over time.

Let's say somebody happens to be listening to this like three, four years from now. Do the rules of thumb changed over time, and what would make them change?

[00:36:10] **Braden:** They absolutely do change because if we look at the Bible of value investing. The Intelligent Investor by Ben Graham. He said, screen and buy stocks that trade for less than 15 times PE, and Graham was the first to tell you that that wouldn't work anymore, and he's not with us anymore, but he was the first to come out and tell people that wouldn't work anymore.

And he kept adjusting the goalpost in his revisions of the book. Same with Phil Fisher. What is the first to tell you, Hey, we're unlike the seventh revision of this book, and you just can't buy great businesses at 14 times earnings anymore. And if you have, over the last ten years, bought low PE stocks.

You've just flat out underperformed you've underperformed because you haven't owned the stuff that we were talking about before, which is the Facebook, Apple, Amazon, Netflix, Google, Microsoft Visa, MasterCard, you haven't owned any of them, and you've just straight up underperformed. So I think that it does matter in terms of keeping up.

You know the market in general, and like those goalposts do change. What doesn't change is that these guys were investing in great companies at reasonably fair prices that didn't, that never changed.

[00:37:34] **Dave:** Yeah. That's exactly right. And that's what Buffett has been breaching for 60 plus years is by a great company at a reasonable price, and everything else will take care of itself.

I think Charlie Munger said, if you buy a company like Costco, it doesn't really matter. It didn't really matter at what price you bought it. You still were going to. Great. And you look at the share price of the company. Now let's push in 500 bucks a share it just, but you look at their numbers across the board from 10 years ago to today. It's; still it's just cranking on. It's just amazing.

[00:38:04] **Braden:** Costco's an insanely good business, by the way. Once you go down the rabbit hole of, yeah, you know what? I'm a shopper there. I'm a customer. I get it. The lineups are huge. Whoa. They're really onto something here; I think it is an impressive thing that they've accomplished as a company they're optimized for low gross margins.

What retailer does that? That's not normal, and that's the model. So once you wrap your head around what they are, It's whoa, this is a really good company.

[00:38:34] **Andrew:** We know what, they're your fancy pants, a new Mac book. I don't know if this is below you or anything, but if you get a chance to try the rotisserie chicken or the rotisserie chicken, you'll ever have.

Okay.

[00:38:50] **Simon:** I went last night. So I actually got

[00:38:55] **Andrew:** market research. It's still good

[00:38:59] **Braden:** market

[00:38:59] **Simon:** research. You can even make a case. They were probably a precursor to software as a service when you think of their membership model. And they have such a great retention rate. And that's what Braden was saying.

There, the margins are super low when it comes to actually sell goods, but then. The membership that people pay and renew every year is amazing. I think there, I can't remember off the top of my head, but I think it's in the nineties in terms of a high nineties, in terms of people renewing their membership. And they're increasing that price over time as well. So yeah,

[00:39:30] **Dave:** I read something not too long ago that Jeff Bezos actually based some of his prime goals, the prime membership, on what Costco was doing because he realized that it was such a great business.

[00:39:42] **Braden:** What they've done is so incredible from a management perspective.

They were the first, really big large company to ignore wall street, and that's important. They ignored wall street. They, there are three things that companies need to look at the shareholder. Employees and customers that's like the stakeholder three-legged stool and most companies, most public companies today, CEOs are very incentivized to just look after shareholders, Costco flipped the book.

They said shareholders are last. They said, shareholders will be rewarded if we take care of our employees and we take care of our customers, we're going to give our customers the lowest possible cost. Possible product, and we're going to pay our employees and incentivize them way better than any other retailer.

And look what the result is. Shareholders have been abundant, rewarded along the way. Okay.

[00:40:42] **Andrew:** And to circle it back to, back to what we talked about at the beginning, is this a great business, and do they have pricing power? People are lining up to pay their subscription fees, no matter what the price is.

Simon, you said 90% renewal. That's some significant pricing power as they continue to make that subscription go up. It's simple when you think of it that way.

[00:41:05] **Simon:** Yeah, exactly. I've had my membership, I think since I moved out of my parents when I was 23, so I'm 36 now it's been 30 years.

I've renewed every year. Before that, I used my parent's membership when I lived at their place. So I think that's a,

[00:41:21] **Braden:** yeah, it started in China too. They're just getting started in China.

[00:41:25] **Andrew:** So any last things here on the checklist that we then cover and any parting words for beginners looking to build their own checklist?

[00:41:32] **Braden:** I have. Really know what you own; I think it is just 101 and probably, has to be discussed. You gotta know you own. I talk to people all the time; there's the classic you're out at the bar. And your buddy tells you about this new whisper stock. It's this high-flying mining company.

They've just touched some lithium batteries. It has military-grade applications. And you're like, okay, whatever. They have no idea. Sometimes. That would actually be a good sales pitch. There started talking about the business. But when they, when you hear talk about, it's \$5, I think it can really go to \$10.

What is the company you're investing in? Seriously, you have to know what you own because you're going to face volatility. Every stock moves up into. And when you see a 10, 20% drawdown, if you don't know it, you're not going to know if it's an opportunity or you should be selling the stock. So you cannot be investing in companies.

You just basically don't know what they do. It sounds ridiculous. It sounds elementary. People do it all the time.

[00:42:50] **Simon:** Yeah. And just and we've talked about this before and just to build on what Brayden said, know what you own and investing in individual companies is not necessarily for everyone. It does take time.

You have to like to do it. You have to want to put the time into it. And there's some great low-cost index ETFs out there that people can invest in if they still want that stock market exposure and not necessarily put all the time that, all four of us. Would put into researching companies. And I think as I got older, as definitely knowing myself and I've reduced the number of holdings that I actually have for that reason.

Cause I just don't have the time to follow all of them as much as I wanted to. So I have a bit of a hybrid portfolio between index ETFs and some individual stocks, I think. For beginners, that's a good lesson is just know yourself, know how much time you're willing to put in there. And if you're willing to know those businesses to stay on top of them, then you should do well if you do that due diligence and research.

[00:43:52] **Braden:** Peter Lynch, the famous hedge fund manager and author of one up on wall street, and investors should read those books, by the way. I'm sure you've talked about the money podcast. Yeah. Is he has this awesome monologue. Investors will be the same. The same person will spend hours researching

some new dishwasher just to save a few bucks or make sure it's the best dishwasher around the same day, throw their life savings in stock. They just heard that this is happening all the time. So just be aware of that.

[00:44:31] **Dave:** Yeah, that's great advice. That's, and it's all great stuff. I really enjoyed listening to all the checklists and all the items and everything and the passion and the knowledge you guys are sharing with everybody.

With our listeners, it's awesome as, also as well as the listeners for your show as well. So we greatly appreciate you guys taking the time to come talk to us today. It was fun. It was a lot of fun. So any parting words you guys would like to share with our guests? We're where they can work? And they find out more about

[00:44:57] **Braden:** you

[00:44:57] **Dave:** guys?

[00:44:58] **Simon:** We're the, obviously, the [Canadian investor podcasts](#) we have for most weeks; we have two episodes a week. On one, on Monday, one on Thursday, you can also find us on Twitter at [CDN underscore investing](#). My personal handle is [Fiat underscore iceberg](#), and Braden's personal handle

[00:45:17] **Braden:** [Brado capital](#). You're like, I forget what it is. And yeah, I know, to come to check out the show. Cause Dave and Andrew were doing a little home in a way here recording, Dave and Andrew are going to come on our show as well. And that'll be out in the next few weeks. Both shows obviously provide a lot of value. We talk about different stuff, but at the end of the day, whether you're a new investor, a skilled investor, It doesn't hurt to look at the basics.

Like we're talking about asking ourselves some really elementary questions can be the most important part of any investing checklist, whether you're investing for one year or 20.

[00:45:58] **Dave:** Amen. Amen. All right, thank you guys for coming and joining us today. We really appreciate it. And with that, I will go ahead and sign us off.

Everybody. Go out there and listen enjoy. Have a great day. Invest with a margin of safety emphasis on a safety. Have a great week. We'll talk to you all next week.