# IFB216: How to Find Beaten Down or Out of Favor Companies to Analyze?

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DAVE Alright, folks, welcome to Investing for Beginners Podcast. Today we have episode 216. And we are going to go back and answer a couple of great listener questions we got recently.

So without any further ado, I will go ahead and read the first question. So it's a great one. So I have Hey, Andrew, my name's Matt, I'm 17 years old. And I've been listening to your show for about a week. Now. I've listened to a lot of what you said. And one thing that seems very important is picking the investment type that suits you best. I've been messing around with the stock market for about a year now.

And I finally feel like I've been throat punched enough like we all do and have made the beginner mistakes and got them out of the way. I want to start investing about half of my paycheck, $500, into the stock market every two weeks. Because I have so much time for these stocks to develop, I'm not at all worried about small risks; what do you think the best strategy for me would be? I wouldn't mind spending a couple of hours over these two weeks researching companies slash ETF. So I'd really like to know what you have to say. So what are your thoughts on Matt's first part of his question?

ANDREW It's interesting. So I guess, you know, I see you smiling over there about the throat punch, Sure.

DAVE Throat punch, yeah.

ANDREW If I were to start over and I was 17 years old, again, it's hard to say what the best strategy for anybody would be because we're all so different. In the end, it's hard to say what kind of investor you'll be five years from now. It's, it's, it's so uncertain. So I would say right now, what's most interesting, and kind of take that path and, and really go down that rabbit hole and follow your curiosity and trying to learn and soak up as much as you can, and then invest alongside that, I think that's a great place to start—and understanding the principles of value investing. And all that has to offer as a compounder. Wealth is also a really great place to start, and that can kind of work together as you're dipping into the market.

DAVE Yeah, I would agree with that. And I think he made an interesting observation, trying to figure out what kind of investor you are; I think I will go a long way towards helping you and how you do with your investments over a period of time. You don't necessarily need to decide exactly what kind of investor you want to be. And experimenting a little bit may help you figure that out along the way as well. But I think it boils down to a few things. So first of all, you need to be able to find investments or companies that you're going to be comfortable holding for a while and that are not going to cause you to lose sleep at night and speculate or buy lots of wild and crazy things, because you're gambling on the future is maybe not the best approach,

I would probably encourage somebody; it's okay to have a little bit of that. And especially when you're young, it probably makes it more exciting and more fun. Certainly, it you know, buying kind of buying the shiny objects and whatnot. But if that's the majority of your focus, then I think you're going to go back to what Matt was talking about with the thermal punching because you're going to get a lot of that.

And that if you're trying to avoid that, then I think, trying to follow the advice and kind of the pattern that we try to advocate, which is the style of value investing. And really, what that comes down to, is finding a great company, whatever it may be, and buying it for what less than you think it's worth because the company will appreciate it over a period of time. And that's how you make those great returns.

And if you look at all the investors over a long period of time that have done well has really been the focus for those investors is buying something less for what it's valued—and then waiting for that to appreciate, however, that long that may take—and then going beyond that. And it's a simple concept. It's not always easy to do, for sure. But I think that really boils down to trying to find those kinds of great companies. And if you find a great company that does well over a long period of time, that's really what you're buying is you're not buying a ticker; you're buying the company.

And if you keep those kinds of simple ideas in mind, you'll do well over a long period of time. And if you're curious and want to keep learning and growing, then that's an even bigger bonus because those kinds of things will help you improve as an investor over a long period of time. And that's one of the things that set Charlie Munger, and Warren Buffett apart from us mere mortals is, even though Charlie Munger just turned 98, and Warren is 91 92, he's still spring chicken, these guys are still curious and still trying to learn right and, and they're still trying to grow and learn, and whatnot and that curiosity drive them. And those are the kinds of things that will help make you successful in the stock market.

And, and it's, it's never going to be the same every single time. And there's always going to be different situations and different scenarios. And as you've seen over the last year, Matt, you've got throat punched a little bit; I like that, I'm not gonna lie, it kind of makes me chuckle. But it, it's kind of appropriate. And depending on what companies you've bought it, there could be different levels of getting punched in the throat, so if you learn from that, that those are valuable lessons. And sometimes buying the boring company is the one that's going to give you the greatest returns over a long period of time.

And I know Walmart, for example, is not sexy by any stretch of the imagination. But if you had bought it 20 years ago, you'd done really, really well for yourself. So it's not as shiny, as sexy as something like Tesla. But you certainly would have done really, really well over a long period of time. So not saying you wouldn't have done well with Tesla, either. But, you know, time will tell and all that.

So anyway, my point with all this is that try to find great companies try to buy them for less than they're worth. Be patient. Be curious and continue to learn. And those things will keep you in good stead as you continue to learn about investing.

ANDREW Want to hit the nail with a hammer a little bit on what you're saying about staying curious. I watched a TED talk the other day; it just kind of popped up on my feed. And he was talking, so there's like two trains of thought. There's this one train of thought it's a book by Gladwell. Malcolm Gladwell.

DAVE Yeah, yeah,

ANDREW Yeah, I've been down the Malcolm Gladwell rabbit hole; I completely blanked on his name. So anyway, in his book, he has this concept where he studied a lot of different really high performers, and a lot of them found proficiency and what they did at the 10,000-hour mark.

And so you know, obviously putting in a ton of time between athletes and, and people, musicians in their career, all of these things say they put in like 10,000 hours, and then they really became masters. This TED talk talks about how there's another pattern that people have observed. And him in particular, where it was actually people who are more late bloomers in the sense that they kind of got to try out a lot of different things and then did the 10,000 hours. They were actually a lot more successful, and there was a have a greater frequency of these types of people with these experiences and some of the high performers and what they did.

And so if we think about how can I apply the stock market, particularly if you have a ridiculously huge Headstart as a 17-year-old, to be curious, and maybe try to accumulate a lot of different, really timeless principles, and you have to be careful because you don't want to go down on you know, pass other so untrodden that you get punched until you find a good path.

So you always want to kind of reset your bearings and make sure you're going down places that are actually timeless and actually wise. But at the same time, there can be a lot of benefit to you down the line, as an investor, if you pick up different specialties, whether that's different industries or even different schools of thought, I mean, even within value investing, there are people in the camp that stick to ratios, and then people who look at DCS, and then even people who are a lot more abstract than that. So within that, I think he definitely wants to maybe keep an open mind. And for sure, don't, don't make up your mind six months into it, and then put blinders on the whole rest of the way because that's a recipe for disaster.

DAVE Yep, I totally agree with that. And I, I think one of the things that will keep you curious and keep you interested in is to follow things that you're interested in if it's airlines, or whether it's payment systems, or whether it's auto, automobile, whatever kinds of things, hold your interest, that's going to help you be more curious and good to you, encouraging you to learn more about it.

And sometimes, it may lead you down a path where you could find some great investments. And unfortunately, sometimes, it could also lead you down a path where you may not find a lot of opportunities at that particular time. But knowledge compounds. And even if you learn all about the airlines, for example, just as an example, and you can't find anything that you really want to invest in right now, at some point, there may be an opportunity to do that. And the knowledge that you've earned, by learning more about the airlines, will stay with you. And when that opportunity comes up, it'll be fresher in your mind.

And you'll be able to grasp some of the ins and outs of that particular sector or industry a lot quicker and a lot easier. So I think following your passions and learning about things that hold an interest for you will make it a lot more interesting as well. Yep. All right. So that that kind of segues into the second part of Matt's Great question. So he'd also like to know what value investing books are most helpful in a sort of checklist way. So thank you for your time. So, Andrew, I know you have a stack there that you could share with us.

ANDREW Yeah, I just went around my living room and started picking stuff up the bookshelf. So I always recommend starting with beating the street by Peter Lynch. And he has definitely been an advocate of looking for stocks that grow really high, but also, you know, at good at a good price. So you're not like overpaying for something.

The Warren Buffett Way is one I really like a lot. It's not really talked about much; this one's Robert Hagstrom. And there are some really cool case studies in there about some of the great companies he's bought, like a Washington Post; I think guy goes in there, some great stories and great insights into how he did it. I can't put a book list without richer, wiser happier we had him on last week. So we don't need to rehash that one. I really liked Vitaly his book; it's one called The Little Book of sideways markets. And that one's really great because the way he explains a DCF valuation model, which by the way is how companies most companies are valued on Wall Street, Warren Buffett uses DCF see just doesn't mean his head when he looks at companies and what they're worth. So that's a super valuable, very entertaining read by the Fatale, very nice way that he described how to do a DCF. And then the last one I'll throw in here is warning that's kind of more like advanced reading. But if you really want to be serious about learning how to evaluate a company and get its intrinsic value, the little book of valuation by Aswath Damodaran.

He just took the whole valuation class that he teaches at NYU Stern, in my opinion, but He basically took that class, put it into a small little book that's definitely digestible, and definitely a lot saves a lot more time than sitting through hundreds of hours. But those are some great places to start. And I think, man, if I had this stack of books, and you know focus on these versus like all the other crap that's out there, it would have been really helpful.

DAVE Yeah, that's, that's a great list. A couple of books, I guess I would probably add to those, would be the Joel Greenblatt book. So you could be a stock market genius too. I think that's a fantastic book. And it's really easy to read. And he explained some very basic concepts in a very eloquent way, that I think for a way people, it makes it really easy to understand, especially just about talking about how finance works, and how value in companies can work.

And he does it in a very thoughtful way. And it's very, very easy to read. It's a great book. Another one that I really like is the Dondo investor by Mohnish Pabrai. Again, another very easy-to-read book. And he does some; it does a great job of explaining kind of the whole concept of buying companies for less than or worth.

And it's fantastic it's very easy to read is one of the first books I read. Of course, there's the Intelligent Investor as well. And then I think the last book that I would probably recommend would be is Warren Buffett's shareholder letters. So he, you can buy it and book form, but you can also go to Berkshire hathaway.com and download every single shareholder letter that he's ever written.

And I worked through those a couple of years ago during COVID, the beginnings of COVID. And they were very limited and very illustrative. And they're a great resource to kind of learn how Buffett thinks. And as you work through the many years that he wrote the letters, you don't have to do every single year as I did, but it definitely is very, very helpful.

ANDREW That was great.

DAVE Alright, so hopefully, that helps you, Matt, and thanks for the great question. Alright, so let's move on to the next question we got.

So we have Hello. I've been trying to locate stocks that Wall Street has turned its back on solid boring companies, any ideas where I can find a list of stocks and start doing my research? I'd like to find companies

that are no more than five years old. I want to find solid companies and ride them out. Thanks, Aaron. So, Andrew, what are your thoughts on Aaron's question?

ANDREW So we haven't mentioned a website called fin biz in a while. So maybe if you're a newer listener, you're not familiar. But there's a free website; it's called finviz comm Finviz. And you can get a whole list of pretty much anything that's traded in the United States if it's on the NYSC. It's gonna be on there. And then, you can start to filter based on lots of different criteria.

So you can go big stocks or big companies, small companies, stocks that have been up for the year, stocks have been down for the year, more of the traditional ratios we've talked about, like the price-earnings ratio, you can filter based on that. And so that's where you can start a list of stocks. What I've liked to do lately is I like to sort by industry, so like, you know, whether that's energy or financials or even if, if you want to go into the individual industries within those sectors, you can do that, too. So you could sort for like video game developers or something, and that will be on there.

That's a very cool thing to do. Because you get that list, and it gives you places to go for further research from there. I would; I would. I mean, I would try to go for a 10k. I mean, if you're really going to be serious about this, you probably should be reading 10 Ks, which is in the annual report of a company, and you get a lot of good material from there. But to get the starting list, you definitely want to use a website like Finviz

DAVE Yeah, I would definitely echo that finviz is a fantastic resource to kind of get you started on that. And just to give you an example, I did this very thing, just to kind of give you an idea of some of the companies that could be available out there. So this is just starting with the A's. So we got companies like Advanced Autoparts at Albertson companies, which is the grocery star Archer Daniel Midland, with the American Express Aflac, Allstate, these are just in the A's. And these would definitely probably all qualify as solid boring companies. They are not; they're not flashy, they don't have high ratios.

And all I did was use finviz.com. And then, I screened for companies that were over 2 billion in market cap, the pay to a dividend at least above 0%. And that was in the United States. And then I came up with this list of about I can't even see how many companies it is, but it's Oh, it's 265 companies. So just doing something simple like that can give you a list of 265 potential companies that you could research. Now try to find companies that maybe are no more than And five years old, that might be a bit of a struggle for the solid boring companies kind of idea. If you're looking for companies that Wall Street has turned her back on, there are other ways to do that as well.

One of the ways that I know Mohnish Pabrai has talked about is looking at companies that are at their 52 week low. So, in other words, there's, you can go on Google. And you can just type in companies that their 52 weeks low. And it'll show you companies that are selling for the lowest price that they sold that in a year. And you can find companies like that, that will show you, you know, some of the companies that maybe Wall Street has turned her back on, a lot of times, Wall Street will turn her back on, out of favor companies, it sometimes it's a company, sometimes it's a sector, and banking, in particular, or insurance companies recently have kind of been on the outs with Wall Street, particularly since 2008 2009. Period.

And you can find, you could find potential deals in something like that, because, you know, Wall Street doesn't like, well, not Wall Street, let's say, investors, maybe not be super excited about investing in a company like Wells Fargo, for example, or US Bank, and or Aflac, Aflac, as you know, had a great return, they play an amazing dividend. And it's a strong solid company, and their P E right now is a little overnight. So it's definitely on the cheaper order, not investment advice. But there are opportunities out there sometimes in the boring sectors like that. And so those are the kinds of things that you can look at.

And sometimes you can just simply Google what is out of favor sectors or industries on Wall Street. And it'll give you an idea of those. And then you can use something like finviz, to kind of sort through some of the opportunities that may be available during those times. And so those are some, those are some easy ways to try to find companies that you can start to investigate 265 is a lot.

So you'd have to probably sort down through that. And sometimes, you can just pick companies you're familiar with. Other times, you could do what Andrew was suggesting and just soar through the different industries and see if there are things in there that might appeal to you. The other opportunity is you can look at companies that have been really beaten down recently and see if there are nuggets in there that could be worth something. You know, recently, we've talked about this in the past that there are a few companies that have really been beaten down over the last few months, for a variety of reasons. And you can investigate those and see if maybe Wall Street is being overly pessimistic about them or not. But they are good places to look for different information.

ANDREW I was clicking around just because I thought maybe this is a feature, you can go and finviz, and I do have a 52 week high low option, and even better, it's like so detail you go 10% or more below the high 15% below the high, below above the low, so you can do all these sorts of things.

DAVE That's awesome. Again, this is a free resource; Andrew and I get nothing for recommending them. It's just something that we've used for many, many years. And it's very, very helpful to try to find things and, and it used to be part of my weekly routine every week, I would go and screen for companies on finviz.

And a lot of times, you'll notice if you set up different kinds of screening metrics that you'll start to find a lot of the same familiar faces for a while. And actually, one of the companies that used to be there on a regular basis was GameStop. No longer but

ANDREW Ironic.

DAVE Yeah. Ironic is so ironic. But it used to be one of the old familiars every week. Gamestop would be an opportunity. The other one was, I think, Xerox or not Xerox. Oh, It was like an Office Depot. Oh, his office depot. That's his office depot. Okay. Yeah, that's

ANDREW, I remember they were like, under $2 a share.

DAVE Yeah, for a very long time. Yeah. Yeah, so yeah, that's probably the best place that I have found to sort for all that kind of stuff.

ANDREW It Yeah, it's definitely worth checking out. I like these questions. Good job, Matt. Good job, Aaron. Yeah, finviz is great. It's a great resource. Hopefully, you guys find some value out of that. I think it's great how Matt and Aaron really had this theme today with the episode there; they've got their head on straight and looking for solid, boring companies.

That's right in our wheelhouse. I mean, the whole financials, some of the boring banks. I mean, personally, when I look at the bank holding that I bought earlier in the year, I see 300 billion more in deposits 300 billion, by the way, which is like really a bee. That's more than most of the companies in that industry. And they just pick that up and deposit it in one year.

I find that exciting. But you know, it's a big boring company. So people don't want to generally flock to it. But though you can find opportunities like that, you can find opportunities and insurance with, like, great companies there who are on your TV every Sunday if you're watching football, some great opportunities

there. So I think I think they're there with their heads in the right spot. It's a good focus to have, especially now, especially since the past couple of months, we've seen the stocks that are boring, certainly haven't been boring, but for reasons now that the price has turned the other way—valuable lessons for sure. And, you know, hopefully, we got our next feature. Buffets and Mungers here. To take that path.

DAVE Yep, I agree. All right. So with that, I will wrap up the conversation for today. I wanted to thank Aaron and Matt for both sending us those great questions. And like Andrew said, You guys are in the right place, and you're headed down the right path. And I'm really excited about what the future will hold for both of you. So thank you guys for sending in those great questions. And please, everybody, keep them coming. We really enjoy helping you learn more about investing. And this is a great, great way for us to answer these questions to help you learn a variety of different topics.

So without any further ado, I'll go ahead and sign us off. You guys go out there and invest with a margin of safety. Emphasis on safety. Have a great week. I'll talk to y'all next week.