



## IFB221: Who Are Some of the Best Businesses in the Market?

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### **Dave**

All right, folks, welcome to Investing for Beginners podcast tonight; we have episode 221. And tonight, Andrew and I will do something a little different. We will talk about nominations for what we think are some of the best businesses in the market. So we're going to talk about some of the companies that we think are some of the best.

And we'll kind of try to talk about what makes them great, why we think they're great. And you know, just kind of have some fun with it. So this is not investment advice. This is just two guys talking about stock stuff. So just kind of sit back and enjoy. And we'll go ahead and start. So the first company up for a nomination or up for bid, if you will, to go back to the prices, right? We have Microsoft, so there shouldn't be any big surprise. So why do you think Microsoft might or might not be one of the best businesses out there.

### **Andrew**

And I think we should be clear, just from the onset, we're talking about best businesses doesn't mean a stock is particularly a buy right now, depending on what its price is. And I might have shares in some of these companies, as far as I might as well. Microsoft being one.

And so, you know, I wonder if when people think about Microsoft, if they're if they haven't studied the company if they really know all of the pieces behind it, because obviously you have Microsoft Windows, which has been around forever seems like, and you have the Xbox, which has been pretty strong in video games. But there's this whole other thing called the cloud, which I think if you're not kind of tuned into that industry, you might miss out on that idea. And it's probably the most exciting thing, in my opinion, about Microsoft.

### **Dave**

Yeah, I would agree. So the cloud is really the thing that has really kind of driven the company to the heights that it's achieved over the last four or five years. And prior to that, the company was kind of in the doldrums. And we were talking about this earlier, that innovation in companies, some does, sometimes a company may peak, and then it just kind of legs for a while. And that's kind of what happened to Microsoft, you know, windows, as you said, is very much a Legacy product. And the cloud, the assure, which is their product, is something that's a doer to them. And it's really kind of driven the success of the company in those returns that they've gotten over the last four or five years. It's just been ridiculous.

And if you look at the company across all kinds of financial metrics, and we're not going to go into all that nitty-gritty, it really shows you how strong that particular thing is and what's really driving the company. And I guess, can we talk a little bit about kind of the cloud as an overview for those of you out there raising my hand that isn't super familiar with what that is?

### **Andrew**

Yeah. 1000 foot view, right? Yeah. So just, in a nutshell, to make it relatable. Netflix, why is Netflix possible, you know, if you remember, back in the day, before Netflix, you had to go to Blockbuster. And if you were a little deviant, and you wanted to download something illegally, you could do that. But you would have to download the video on your computer, wait for it to download, and then you could watch it. So now, with Netflix, you don't have to download the whole thing to your computer, you can just stream it, and it sits on the cloud.

So that's basically what we're talking about here is this migration from data being housed on a device in some of these homes to now being accessible anywhere. And so where Microsoft really stands out in that playing field is that they serve all of the biggest companies out there is something over 95% of the Fortune 500 utilizes Microsoft's offerings. And so they make a lot of what we take for granted on the internet today, on cell phones, on your computers. We all kind of take that for granted. But behind the scenes, the infrastructure and everything that's allowing that to show up as pixels or as data, it's all being done on cloud providers like Microsoft Azure or Amazon's AWS.

### **Dave**

It's pretty amazing. And along with the benefits that you were just talking about, it's also allowed Microsoft to take one of its legacy products, the Office suite of products, which you know, you and I can't live without, with between Word and Excel, for example, can't live without it. And the Cloud Platform has allowed Microsoft to take those legacy products and put a new spin on them and offer them to people either a subscription basis where they can access all of that on the cloud instead of having to download it on their computer.

They can access it all through their phone, through their laptop, though, you know, they're any kind of browser that they want. And so it just gives them more opportunities. And that's what I think makes Microsoft such a strong dominant business is that they've taken all these parts and allow themselves to really grow with those things, but offer different, I guess, visions or slices of things that they already do in different ways, which just make it even more attractive to people. And it also, because of the nature of how to the beauty of software businesses, in particular, is that you make it once, and then you sell it a million times, but you only have to pay for the making it once.

And so all that other money that you make from it is profit. And so that's what really drives a company like Microsoft, having these huge profits, these great cash flows, these great returns on capital, and all these great metrics. And it also allows them to reinvest in themselves even more, and it just becomes, you know, as we

say, becomes the snowball, and they can put more money into reinvesting, which helps improve the business,

**Andrew**

it really some of the ways that their segments are, they can really reinforce and help each other. And there could be a lot of potential cross-selling, and there is, and it's just a natural fit to have this Microsoft solution or that Microsoft solution or even LinkedIn. You know, most people even know that they own LinkedIn, by the way, right? So there are just all of these great products services; Microsoft offers a great brand name. And the thing that I think is really critical. What makes the cloud so exciting is that data is being generated so much more and not less.

You could go back in the archives, our interview with Jeff from visual capitalists, he talked about that as one of the huge trends that he observed. I think it was two years ago, maybe yeah. And if you look at the graph, you want to talk about like compounding, you look at the graph, or how much data is being generated across the world, we're talking about digits and digits and digits, you know, just span across the screen. And businesses are finding ways to use data to make more money.

And that has so many applications, from cars generating data through their sensors to, you know, a couple of stock market guys running algorithms to try to get an edge on what they're doing. So many different ways. Not even to mention AI is just there's so much potential, and they are really at the forefront of being that support of the Fortune 500. And, you know, how can that be stopped? I think it would be really hard to see that train stop. Yeah,

**Dave**

I would agree with that. So I think we would both agree that Microsoft is probably arguably one of the better businesses out there right now.

**Andrew**

So tell me what would be your next nominee, then

**Dave**

My next nominee would be Visa, all confession, I do own Visa. So this is a company that I've owned for a little while now. And I'm very bullish on this company. It's one of the, I guess, true dominant payment processors and its processor payment providers out there. Along with MasterCard, his company's been around since the 60s. And it has been easily one of the more dominant visual brands out there. There is probably not almost anybody on earth that doesn't know who VSA is.

And it is a juggernaut of a company that just keeps chugging along. And like our friend Braden likes to say, it's one of those companies that they turn off the lights, and they still make money. People don't have to go to work the next day, and a company still makes money. It's just one of those businesses that if you look at what it does, how it does what it does, and you look at the financial performance of the company, and it's just kind of jaw-dropping, the margins, the revenue, growth, all those things that they can generate over time. It's just staggering.

**Andrew**

It took you, Andy, and Braden to finally take it. I know; I'm really glad you guys did. It's like a toll. I mean, it's a toll road for business. It really is. And I think when I looked at the business, what really stood out to me is that they actually do spend a lot of money to stay and keep their business going. And the way they do that is through incentives. And so if you think about who kind of holds the keys to whether you're going to get a Visa or MasterCard, it's really the banks. So by betting on VC, you're betting on the banking system. And if you study the banking system enough, I think you realize that it's gonna be around for a while, and there are reasons that it is set up the way it is. And there's a lot of money sloshing around in there and a lot of strong banks in this country right now.

And so, once they have these relationships with these banks, and they're basically doing the marketing for Visa, is to say, hey, you know, come get your, your JP Morgan card, here's your Visa, and it has a visa on it. They don't need a lot of money to take their little tolls from every transaction that's been swiped. And more and more everyday people are using their cards more, and cash is being used less. And I think to us. We kind of think of Visa as like, oh, yeah, they're ready everywhere. But you'd be surprised where there's still a lot of room for them to grow, particularly internationally.

And the way that they're growing here in the US in the past several years has been really, really astounding as well. And it's not that big of a company; even though it's a big company on the stock market, they're really not that big in size. And so they could have a long way to run as well, just from a size

## **Dave**

perspective. Yeah, absolutely, they could. And a lot of people, when they think of Visa, they think of credit cards or debit cards. And it might surprise you to know that they actually don't issue those cards like Andrew was saying, they all come from your bank, or your financial provider, whoever that may be, whether it's Bank of America, or whether it's PayPal, the Visa card that you get or square, or sorry, block, the Visa card that you get from those companies, those are all issued by Visa gives them the rights to issue those cards, and use their payment rails to process payments.

So when you have a Visa card, and you pay your monthly or your you know, your balance every month on your Visa credit card, whoever the Bank of America VISA credit card, you're actually paying Bank of America, Visa is allowing Bank of America card to use their card to process payments with Nike and Dick's Sporting Goods and Walmart. And then you pay Bank of America your balance at the end of the month; Visa makes money on all those transactions. And that's why it's such a beast of a business along with MasterCard, is that they take us a very, very, very, very small piece of the pie of every transaction. And I was reading through their 10k A little while ago. And I believe they processed around 25 trillion transactions last year. And think about that 25 trillion transactions.

That's a mind-boggling number. So anyway, the reason why a company like this is because it has such a huge brand name such a huge moat. And they've built up a system that allows them to enable payments and make them easier for both us, the consumer, as well as the people that we buy from. And how many times have you gone to a place and you're like, I want to give you my money? Can you please take it and it's so hard. And Visa, one of the things that they pride themselves on is making those payments easier for all of us. And that's really the basis of their business. And that's why I think it's one of the best businesses out there. I know Braden would love to hear me say that. So

## **Andrew**

it's very hard for another competitor to come in and replicate such a network that they have, I mean, virtually impossible. The network that Visa has is our MasterCard; if Microsoft's a bet on business in the economy

faces a bet on the consumer. And that's really that simple. And so, as the economy grows, the consumer gets well, better, and more well off. Visa naturally grows without having to do anything. It's fabulous.

**Dave**

Yeah, it is fabulous. All right. So that's nominee number two is Visa. Andrew, who do you have for number three?

**Andrew**

Well, I have a little easter egg. This is a company probably most people never heard of called Martin Marietta materials. And you're shaking your head. You should have if you read the letter, of course.

**Dave**

But before that, before that never heard of them, I had no idea they existed.

**Andrew**

So I'm not gonna talk about whether I think they're a buy or not today based on where they're priced. But I'll just give you the basics. If you're looking for an infrastructure kind of play, I don't know who would be a better business than Martin Marietta. And there are several reasons why. So first, at the very basic level, they are just concrete, you know, they make concrete and asphalt.

And so that doesn't sound very exciting. And it sounds like it could very easily compete away because there are no brand names, right? Or like, nobody really cares what concrete goes as long as it goes in. But the issue with those two things is that they're very, very heavy. And so the highest cost is to get those things moved around. And so what a company like Martin Marietta does is they mine the materials that make that concrete and asphalt, and then they will have those be close to where it needs to go. So whether that's paving a new highway, or, you know, making a new sidewalk, whatever that is, they will be being close to those things gives them a competitive advantage. Secondly, you have to have certain government approvals to enter certain minds.

So once they have a mind locked up, it's very hard for somebody to kind of replicate that. And so by having lots of vocations and being a leader in that, you have a good moat against other competitors once you are established, and so they are one of the two that are big in their industry with a broad geographic footprint. And the big infrastructure bill is going to mean a lot of concrete and a lot of asphalt are going to be laid, and by, By the way, you got to lay asphalt all the time, because you see the roads, they definitely need maintenance. And so that's just recurring revenue as that stuff needs to continue to be mined. And oh, by the way, there's a limit to that, you know, we have people who get really excited about limited supply, there's a limited supply of what's called aggregates, which is this material that goes into the concrete in the asphalt, that price has been going up steadily every year, over the long term, like 5% a year, that's because we're running out of it.

And so what better place to be than an owner of scarce resources running out, and we haven't found a replacement for it? It's sad, but you know, at the same time, it's necessary for all of the infrastructures that we have needed to build, have to maintain, and are trying to build for the future.

**Dave**

Yeah, that's a great point. And what more foundational that can accompany be than something that's, you know, building, creating, helping create asphalt and cement that we use for the basis of just about everything. In the United States, as somebody, you mentioned about the roads being needing to be repaired as someone from the Midwest, who knows that we have two seasons here, winter and construction. So we understand here very well, what you're talking about, and I was not familiar with the company, prior to you telling me about it and reading about it, and I was blown away, you know that something like that exists, but you just never think about, you know, hey, this is something that I should invest in. And you know, what kinds of, it's not exciting, you know, so it just doesn't really fall into the purview of what most people are going to talk about, about companies out there.

And a company that can wisely put themselves in a position that will be close to where they're needed. And like you said, you know, the biggest issue is going to be moving the product from point A to point B. And if they're already doing that, that just makes it so much easier for their customers. And if they're the market leader in such a guess, high construction, heavy-duty kind of business, it's gonna be real capital intensive for other people to come in and try to take market share from them.

So they're going to have like you said, a very, very wide moat because that's not something you can go into meekly. And just kind of dip your toes in and see if this is something you want to do. If you're gonna, if you want to take on a Martin Marietta, you're gonna have to lay down a lot of cash to take them on. So it sounds like an amazing business.

**Andrew**

It's exactly right; what you're saying about can't tiptoe. And if you're competitive there, one last thing that I think is very interesting, and that kind of ties back into the Microsoft thing. They've said that one of the biggest uses of the aggregates is actually constructing data centers. So we want to talk about what's been one of the greatest growth drivers in the last three, four, or five years data centers for the cloud. Yeah, that's great for Martin Marietta.

**Dave**

Yeah, that sees another bonus thing. Okay. All right.

**Andrew**

So we got next

**Dave**

I got so I'm gonna go with Moody's. So this is a company that probably a lot of people are not familiar with. So not quite the easter egg that Martin Marietta was, but it's probably a little more under the radar of trading companies. But Moody's is a company that deals in debt. So again, another super exciting company. But what they do is they have kind of two businesses. And Moody's has been around for a long time. And they're one of the companies that help rate a company's debt. So when a company wants to raise money to build a data center, they would go to a company like Moody's and have their financials analyzed.

And then Moody's will give them a rating of how strong they think the company's financials are. And then that company can take that information and go out into the public and sell their debt to investors to buy, and they can use their ratings to help generate interest, not only interest in the debt that they're offering, but also what kinds of security they can get, also what kinds of interest they can generate. In other words, what kind

of debt payments they may have to pay to the people that are buying the debt. And so all these things kind of tie in together. And Moody's is one of them; there are three companies that do this, but Moody's is I think one of the better ones that doing this, and because of the nature of how companies invest, and especially when interest rates are lower like they have been for the last 1012 years, this gives Moody's the opportunity to really use their products and their services to help companies like Microsoft or Visa, Martin Marietta go out and get financing to invest in their companies to grow faster.

And this is one of the benefits of a company like Moody's is they have that ability and because they have such a great reputation in the marketplace, people look to companies they We'll just look and say, Well moody says that so and so has a triple-A rating or a triple B rating. And that's all people have to know sometimes to know the financial strength of the company they're talking about. So Moody's has that kind of a guess street read street cred, if you will, to say how strong a company is Now, an interesting tidbit. There right now, there are only two companies in the stock market that have triple-A ratings. What is Microsoft, which we talked about earlier? The other one is Johnson and Johnson. And finally,

**Andrew**

one more, oh, there's Apple just recently got.

**Dave**

Oh, okay. All right. Good. Thank you, I did not know that. So there are now three companies, sadly to say, that have a higher credit rating than the US government.

So just let that hover over your head for a second. But anyway, Moody's is one of those companies that help businesses raise money and also give a quick, easy way for investors to determine whether the debt is safe and secure and how financially strong a company may be.

And they also have analytics businesses as well. So they can offer different kinds of analytics to companies to determine how great the company is. And then if you look at the financials of the company, it's ridiculous, their margins are ridiculous, you know, really, really high. The returns on capital do a great job of reinvesting they pay a dividend. They buy back a lot of shares; they have tons and tons and tons, or gobs of cash flow. So it's just one of those businesses. And by the way, Warren Buffett is a shareholder of this company. So I think that kind of says it all.

**Andrew**

Yeah, it sounds like a GPA for if you're a company wanting to get that wanting to get financing, you gotta have it,

**Dave**

you got to have it. So I guess that's what makes them such a strong company. Alright, so moving on. So number five, who do you got?

**Andrew**

I threw this one into the hat just to make it fun and interesting. Okay. I will go on to say, Tesla. And I think the stock price, just to be clear, I think the stock price needs to come down quite a lot for me personally, to be comfortable buying a stock like Tesla not trying to say that it's not going to do well, you know, just That's

my level of comfort. But I think it's very clear that they are one of the best businesses that we've seen come out of the stock market in the last ten years.

If I look at what's made Apple so successful, I guess if we had time, we could have thrown them into, but we're running out of time; Apple kind of vertically integrated in a way that was unique at the time, where they built their own ecosystem. And I see Tesla doing a lot of that similar type of thing with the charging stations they've built right like rabid fans; the car itself is pretty cool. And the people who drive it love it. So just like Apple had its own, you know, back in the day, they had their own cultists; basically, Tesla has its own as well.

And the way the just engineering capability of the car of the leader, Elon, and everything that the company has been able to do and how they've been able to make this growth story happen has been nothing of extraordinary. I think electric vehicles are the future. We don't know to what extent that is. And Tesla has carved out a brand for itself in this brand new market, which is electric vehicles that I don't think any company, I think they'll have their own little brands, but they're not gonna have a cult following as Tesla does.

## **Dave**

I would agree with that. I think they have certainly carved out a niche for themselves. And they have certainly carved out a brand name and awareness and recognition. There's no denying that. And they've created a market that wasn't there before. And you have to give them kudos for that. You know, as much as I've bashed Tesla through the years, you have to give them credit for that.

And I will fully acknowledge that. And I think it's starting to make a profit, which is encouraging. I agree with you; the stock market price is kind of ridiculous. But that's a whole other conversation. It certainly has raving fans; there's no question about that. I guess the question I have about Tesla that I guess I would quibble a little bit is my whole issue with Tesla has been that they're going to take over the entire car market. And I feel like it's more of a niche product simply, and I could be wrong. And you know, and again, this is all coming from 30,000 feet.

So, you know, I'm sure there are people that know way more about the company than I do. From an outsider, it looks like a company that I would put on the same luxury class level as a BMW or Porsche or something of those levels. I don't think of it as you know, a Hyundai or a Honda or a Ford Taurus, where it's something that an everyday person is going to drive. And so I think unless until they make a car that's in that realm, I don't know that they're going to ever take over the auto industry, it feels like, and maybe this is a little bit like the Bitcoin conversation we had with Simon. Sorry. It's a little bit like the Bitcoin Maxis is, you know, maybe the Tesla cult has got everybody believing that they're going to dominate the car market. And they certainly have in that Ford, GM, Toyota, Volkswagen, every large auto manufacturer; they're all chasing Tesla electric vehicle. There's no denying that. But I guess I'm not sure where it fits, where they're going to end up fitting in the whole ecosystem of cars. And I guess that's what I struggle with.

## **Andrew**

Yes, I guess the upsides and the downsides to having raving fans to such a religious extent that Tesla does, is that the upside is you got some great customers downside is you have a stock price that's just as if Tesla's gonna take over the whole world. Again, just Amazon like Amazon did. That's just historically not worked out? Well. And so I think I agree with you with most of that.



**Dave**

That's interesting. I agree with you they've created you know, there's a lot of things you can say they're very positive about the company. That's, I guess, my only concern about Tesla, but anyway,

**Andrew**

so you've got to drive one and just step on the gas pedal. Not a gas; I can't even call hospital anymore. Just held the metal. You'll be shocked. And then you just hear the little fart noises.

**Dave**

I thought he had to make that go away. And maybe someday I will, I will get a chance to ride on maybe. Alright, folks. Well, with that, we are going to wrap up our conversation for tonight. I would love to hear what you guys think of our nominations; please let me know on Twitter or Facebook. And you can tell us what you think of our nominations for Best businesses. And you can nominate some of your own, and we could have a conversation about that. I think that would be kind of interesting.

For those of you who are not familiar with some of the metrics, ratios, ideas that we talked about, we have a website investing for beginners.com, where you can go and learn all of those things. And for those of you that want to search for specific things, we have this really cool search bar in the center. You can type in things like ROIC or price to earnings. And it'll take you to all these great articles that will help you learn more about all the stuff that Andrew and I are talking about in the show to help you further your knowledge about investing. So without any further ado, I'm going to go ahead and sign us off; you guys go out there and invest with a margin of safety. Emphasis on the safety. Have a great week. We'll talk to you next week.

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